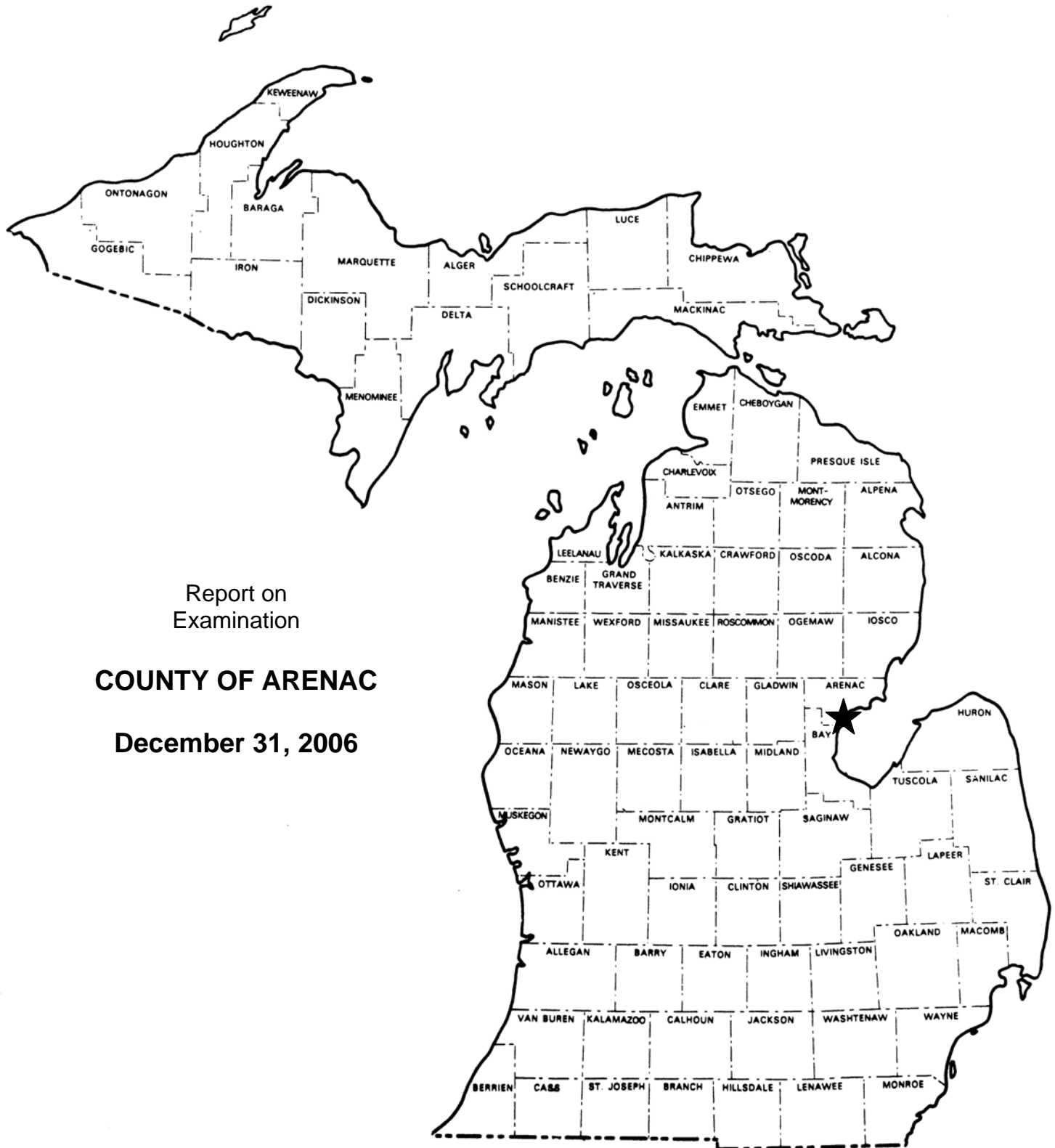


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

COUNTY OF ARENAC

December 31, 2006

COUNTY OF ARENAC
BOARD OF COMMISSIONERS

Virginia Zygiel
Chairperson

Roma J. Dijak

Kenneth Kernstock

Pauline Hall

Amy Lynch

COURT JUDGES

William Miles
Circuit Judge

Ronald M. Bergeron
Circuit Judge

Jack W. Scully
Probate Judge

Allen C. Yenior
District Judge

OTHER ELECTED OFFICIALS

Dennis Stawowy
Treasurer

Ricky R. Rockwell
Clerk

Rosella Smith
Register of Deeds

Donald Prueter
Drain Commissioner

Ronald L. Bouldin
Sheriff

Curtis G. Broughton
Prosecuting Attorney

COUNTY POPULATION--2000
17,269

STATE EQUALIZED VALUATION--2006
\$743,671,204



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 24, 2007

Arenac County Board of Commissioners
County of Arenac
120 North Grove Street
Standish, Michigan 48658

RE: Unqualified Opinions on Basic Financial Statements Accompanied by Required
Supplementary Information and Supplementary Information

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Arenac County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Arenac County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Arenac County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arenac County Road Commission (discrete component unit--governmental fund) which statements reflect total assets and revenues of \$6,596,743 and \$3,842,696, respectively, as of December 31, 2006. These financial statements were audited by other auditors. Our opinion on these financial statements, insofar as it relates to the amounts included for the Arenac County Road Commission, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining

fund information of the Arenac County, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2007 on our consideration of the Arenac County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arenac County's basic financial statements. The combining nonmajor fund financial statements (Exhibits N through S), general fund detail schedule of revenues and expenditures (Exhibits T through U) and combining component unit financial statements (Exhibits V through Y), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, general fund detail schedule of revenues and expenditures, and combining component unit financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ARENAC COUNTY
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COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

The County's net assets for the governmental funds increased \$803,109 from a year ago for the governmental activities. The County's net assets for the business-type activities decreased \$49,862 from a year ago. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2005	Governmental Activities 2006	Difference	Percent
Current and Other Assets	\$ 5,936,627	\$ 5,789,129	\$(147,498)	-2%
Noncurrent Assets	47,000	47,000	-	0%
Capital Assets	3,793,137	3,896,794	103,657	3%
Total Assets	9,776,764	9,732,923	(43,841)	0%
Long-Term Liabilities Outstanding	782,771	687,885	(94,886)	-12%
Other Liabilities	2,509,731	1,804,667	(705,064)	-28%
Total Liabilities	3,292,502	2,492,552	(799,950)	-24%
Net Assets				
Invested in Capital Assets--Net of Related Debt	3,181,748	3,376,542	194,794	6%
Restricted	2,182,923	2,217,876	34,953	2%
Unrestricted	1,072,591	1,645,953	573,362	53%
Total Net Assets	\$ 6,437,262	\$ 7,240,371	\$ 803,109	12%

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the County's net assets in the amount of \$3,376,542 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$2,217,876, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$1,645,953 represents "*unrestricted net assets*" that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current calendar year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Other Assets	<u>\$ 2,540,107</u>	<u>\$ 2,490,517</u>	<u>\$ (49,590)</u>	<u>-2%</u>
Total Assets	<u>2,540,107</u>	<u>2,490,517</u>	<u>(49,590)</u>	<u>-2%</u>
Other Liabilities	<u>-</u>	<u>272</u>	<u>272</u>	<u>100%</u>
Total Liabilities	<u>-</u>	<u>272</u>	<u>272</u>	<u>100%</u>
Net Assets				
Unrestricted	<u>2,540,107</u>	<u>2,490,245</u>	<u>(49,862)</u>	<u>-2%</u>
Total Net Assets	<u><u>\$ 2,540,107</u></u>	<u><u>\$ 2,490,245</u></u>	<u><u>\$ (49,862)</u></u>	<u><u>-2%</u></u>

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets for the years ended December 31, 2004 and December 31, 2006:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 1,331,597	\$ 1,325,593	\$ (6,004)	0%
Operating Grants and Contributions	1,774,303	1,401,590	(372,713)	-21%
Capital Grants and Contributions	78,052	41,450	(36,602)	-47%
General Revenues				
Property Taxes	4,175,251	4,727,282	552,031	13%
Unrestricted Investment Earnings	39,305	56,772	17,467	44%
Rentals	6,000	5,000	(1,000)	-17%
Other Revenues	<u>23,310</u>	<u>26,272</u>	<u>2,962</u>	<u>13%</u>
Total Revenues	<u>7,427,818</u>	<u>7,583,959</u>	<u>156,141</u>	<u>2%</u>
Program Expenses				
General Government	2,321,421	2,324,438	3,017	0%
Public Safety	2,297,806	2,107,209	(190,597)	-8%
Public Works	23,417	19,310	(4,107)	-18%
Health and Welfare	1,081,645	1,335,749	254,104	23%
Community and Economic Development	291,788	296,784	4,996	2%
Recreation and Culture	91,120	115,438	24,318	27%
Other	996,756	948,441	(48,315)	-5%
Interest on Long-Term Debt	<u>31,907</u>	<u>26,605</u>	<u>(5,302)</u>	<u>-17%</u>
Total Expenses	<u>7,135,860</u>	<u>7,173,974</u>	<u>38,114</u>	<u>1%</u>
Increase (Decrease) in Net Assets Before Transfers	291,958	409,985	118,027	40%
Transfers	<u>524,370</u>	<u>393,124</u>	<u>(131,246)</u>	<u>-25%</u>
Change in Net Assets	<u>816,328</u>	<u>803,109</u>	<u>(13,219)</u>	<u>-2%</u>
Ending Net Assets	<u>\$ 6,437,262</u>	<u>\$ 7,240,371</u>	<u>\$ (144,465)</u>	<u>-2%</u>

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and, additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. Beginning in 2004, the property tax revenue of the governmental activities increased due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund County Property Tax Collections from December to July over a three year period. During that time period, the County will levy 33% more each calendar year and set aside that amount into the Revenue Sharing Reserve Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

The county's net assets decreased during 2006 by \$144,465. This was due largely to an increase to property tax recognition.

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 233,578	\$ 335,552	\$101,974	44%
General Revenues				
Unrestricted Investment Earnings	<u>41,251</u>	<u>57,382</u>	<u>16,131</u>	<u>39%</u>
Total Revenues	<u>274,829</u>	<u>392,934</u>	<u>118,105</u>	<u>43%</u>
Program Expenses				
Delinquent Tax Fund--Other	1,500	5,123	3,623	242%
Tax Foreclosure Program	23,686		(23,686)	-100%
Nonmajor Enterprise	<u>3,219</u>	<u>44,549</u>	<u>41,330</u>	<u>1284%</u>
Total Expenses	<u>28,405</u>	<u>49,672</u>	<u>21,267</u>	<u>75%</u>
Increase in Net Assets Before Transfers	246,424	343,262	96,838	39%
Transfers	<u>(539,370)</u>	<u>(393,124)</u>	<u>146,246</u>	<u>-27%</u>
Increase (Decrease) in Net Assets	<u>(292,946)</u>	<u>(49,862)</u>	<u>243,084</u>	<u>-83%</u>
Ending Net Assets	<u><u>\$2,540,107</u></u>	<u><u>\$2,490,245</u></u>	<u><u>\$ (49,862)</u></u>	<u><u>-2%</u></u>

Alternate sources of revenue such as charges for services and investment earnings accounted for more than \$100,000 in increased revenue. This was mostly due to the property tax foreclosure program. Although there was less money transferred out, there was still a decrease in net assets of \$49,862.

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed calendar year 2006, its governmental funds reported combined fund balances of \$2,700,048, an increase of \$369,246. The net changes are summarized below:

	Governmental Activities 2005	Governmental Activities 2006	Amount Difference 2006	Percentage Difference 2006
Revenues				
Taxes	\$ 4,175,251	\$4,564,823	\$ 389,572	9%
Licenses and Permits	151,463	117,861	(33,602)	-22%
Federal Grants	567,744	299,565	(268,179)	-47%
State Grants	934,744	818,060	(116,684)	-12%
Charges for Services	1,036,585	99,931	(936,654)	-90%
Contributions From Local Units	80,470	945,697	865,227	1075%
Fines and Forfeits	24,995	31,990	6,995	28%
Interest and Rentals	45,550	62,106	16,556	36%
Other Revenue	410,687	408,606	(2,081)	-1%
Total Revenues	7,427,489	7,348,639	(78,850)	-1%
Expenses				
General Government	2,263,125	2,283,915	(20,790)	-1%
Public Safety	2,233,437	2,018,097	215,340	10%
Public Works	23,417	19,310	4,107	18%
Health and Welfare	1,081,645	1,335,749	(254,104)	-23%
Community and Economic Development	291,788	296,784	(4,996)	-2%
Recreation and Cultural	54,045	78,941	(24,896)	-46%
Other	996,756	948,441	48,315	5%
Capital Outlay	237,138	273,537	(36,399)	-15%
Debt Service			-	
Principal	87,988	91,138	(3,150)	-4%
Interest and Fiscal Fees	31,907	26,605	5,302	17%
Total Expenditures	7,301,246	7,372,517	(71,271)	-1%
Excess of Revenues Over (Under) Expenditures	126,243	(23,878)	(150,121)	-119%
Other Financing Sources (Uses)				
Interfund Transfers In (Out)				
Primary Government	854,178	937,661	83,483	10%
Primary Government	(314,808)	(544,537)	(229,729)	73%
Component Unit	(15,000)		15,000	-100%
Total Other Financing Sources (Uses)	524,370	393,124	(131,246)	-25%
Beginning Fund Balance	1,680,189	2,330,802	650,613	39%
Ending Fund Balance	\$ 2,330,802	\$2,700,048	\$ 369,246	16%

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

The financial statements for the County's major funds are detailed in Exhibits C and D, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2006 include the General Fund, 911 Service Fund, Revenue Sharing Reserve Fund, and the Delinquent Tax Revolving Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund.

The most significant services paid by the County's governmental funds are general government and public safety, which incurred expenses of \$2,066,279 and \$1,007,947, respectively, during 2006.

The County's total governmental revenues decreased by approximately 1%. The decrease was due mostly to a loss in Federal and State grants during 2006. If the State and Federal funding had remained constant, the 9% property tax growth would have all been a revenue increase. There was nearly a \$400,000 decrease in State and Federal grants. The County adjusted its spending and was able to hold to an overall 1% increase.

Expenses increased by approximately 1%, mainly due to increased expenditures in general government and public safety.

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	Business-Type Activities 2005	Business-Type Activities 2006	Amount Difference 2006	Percentage Difference 2006
Operating Revenues				
Interest and Penalties on Taxes	\$ 182,635	\$ 215,557	\$ 32,922	18%
Charges for Services	44,618	119,995	75,377	169%
Other	6,325		(6,325)	-100%
Total Operating Revenues	233,578	335,552	101,974	44%
Operating Expenses				
Title Search Fees	19,951	30,505	(10,554)	100%
Supplies and Materials	3,219	11,743	(8,524)	-265%
Other	5,235	7,424	(2,189)	100%
Total Operating Expenses	28,405	49,672	(21,267)	-75%
Net Income (Loss) From Operations	205,173	285,880	80,707	39%
Nonoperating Revenue (Expenses)				
Interest Income	41,251	57,382	16,131	39%
Total Nonoperating Revenues (Expenses)	41,251	57,382	16,131	39%
Net Income (Loss) Before Operating Transfers	246,424	343,262	96,838	39%
Transfers In--Primary Government	20,109	176,600	156,491	100%
Transfers (Out)--Primary Government	(559,479)	(569,724)	(10,245)	2%
Net Income (Loss)	(292,946)	(49,862)	243,084	-83%
Beginning Net Assets	2,833,053	2,540,107	(292,946)	-10%
Ending Net Assets	\$ 2,540,107	\$ 2,490,245	\$ (49,862)	-2%

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's business-type activities consist of the Jail Commissary Fund operating on sales of amenities to inmates, the Tax Foreclosure Fund which operates on Charges for Services revenue, and the Delinquent Tax Revolving Fund which represents collection of delinquent taxes from various years. The net assets of the tax administration fund decreased by 2% or \$49,862 during the year of 2006. Even though there were increases in operating revenue, over \$500,000 had to be transferred out to cover shortfalls in other funds. The decrease was not as bad as the prior year, but the County realizes this trend can't continue. Michigan's economy and the State's failing budget are putting pressure on the counties to be more self-funded.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's General Fund revenue budget was increased by \$405,643 (8% above the original budget) during calendar year 2006. Actual General Fund revenue and other financing sources totaled \$4,963,706, which was \$119,289 less than the final amended budget. The largest variance was a decrease in District Court revenue.

The County's expenditure budget was increased by \$405,643 (8% over the original budget) during calendar year 2006. Actual General Fund expenditures and other financing sources totaled \$4,878,709, which was \$204,286 below the final amended budget. The largest variances were decreases in supply purchases, travel, and anticipated contractual service contracts.

Capital Asset and Debt Administration

At the end of 2006, the County had \$3,896,794 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included a new roof for the county building and jail, jail intercom, and vehicles for the Sheriff's Department. These additions totaled \$273,537.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current calendar year, the County had total debt outstanding of \$687,885 which includes vested employee benefits of \$167,633.

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factor in preparing the 2007 calendar year budget:

The Revenue Sharing Reserve Fund transfers are complete but the County believes this will only be a stop gap repair for its budget. In approximately 4 years when this fund runs out there will need to be a replacement funding mechanism from the State. There was a decrease in grant funding during the last year and the County believes this trend will continue. As the State's budget shrinks more and more services are being requested of County government. The increased prisoner population in our jail due to the revision of sentencing guidelines has caused an explosion of cost in both the courts and the jail. Our property tax caps in the form of both proposal "A" and the Headlee Amendment are working together to hold the increases in the operating revenue of the county down. Proposal "A" allowed for increased tax revenue from a sale (uncapping) of property, but what actually happens is the Headlee Amendment rolls back the millage rate, which ends up off setting any revenue increase the County thought it would get. If the request for services continues to rise faster than the increase in revenue, the County Board will continue to have to make hard decisions with regard to the budget, based on getting the most bang for their buck. Public Safety will continue to be a major concern for the county, but will be forced to cut services in order to operate mandated offices. Until the State's economy improves there has to be a reduction in services to off set revenue reductions in Arenac County.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Arenac County Board of Commissioners at 120 North Grove Street, Standish, MI 48658.

ARENAC COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,337,364	\$ 987,772	\$ 2,325,136	\$ 802,967
Investments	586,453	840,517	1,426,970	
Receivables (Net)				
Taxes--Current Levy	2,265,032		2,265,032	
Taxes--Summer Levy	162,459	634,961	797,420	
Accounts	24,585		24,585	1,480
Interest			-	615
Notes	1,168,955		1,168,955	
Due From Local Units of Government	11,823	24,560	36,383	16,479
Due From Other Counties	56,617		56,617	
Due From State	173,548		173,548	467,096
Internal Balances	2,293	(2,293)	-	
Due From Other Funds--Component Units	-	5,000	5,000	
Inventories			-	223,192
Prepaid Expenses			-	74,470
Total Current Assets	5,789,129	2,490,517	8,279,646	1,586,299
Noncurrent Assets				
Special Assessments Receivables				
Due Within One Year			-	141,567
Due in More Than One Year			-	203,327
Due From Local Units of Governments				
Due Within One Year			-	18,000
Due in More Than One Year			-	302,000
Capital Assets--Net of Accumulated Depreciation	3,896,794		3,896,794	6,047,731
Long-Term Advances to				
Other Funds--Component Units	47,000		47,000	
Total Assets	9,732,923	2,490,517	12,223,440	8,298,924
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	150,766	272	151,038	143,428
Due to Other Funds--Component Units			-	5,000
Due to State	45,884		45,884	
Accrued Liabilities	66,320		66,320	17,420
Noncurrent Liabilities				
Advances From State			-	195,353
Long-Term Advances From				
Other Funds--Primary Government			-	47,000
Deferred Revenue	1,541,697		1,541,697	60,504
Bonds Payable--Due Within One Year	35,000		35,000	18,000
Bonds Payable--Due in More Than One year	480,000		480,000	302,000
Installment Loans Payable--Due Within One Year	2,522		2,522	
Installment Loans Payable--Due in More Than One Year	2,730		2,730	
Notes Payable--Due Within One Year			-	30,000
Notes Payable--Due in More Than One Year			-	150,000
Vested Employee Benefits Payable--Due Within One Year			-	1,336
Vested Employee Benefits Payable--Due in More Than One Year	167,633		167,633	44,954
Total Liabilities	2,492,552	272	2,492,824	1,014,995

ARENAC COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT A
(CONTINUED)

	PRIMARY GOVERNMENT			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>NET ASSETS</u>				
Investment in Capital Assets--Net of Related Debt	3,376,542		3,376,542	5,867,731
Restricted for				
911 Services	452,357		452,357	
Capital Projects	32,605		32,605	
Non-Major Special Revenue Programs	1,732,914		1,732,914	
County Roads			-	776,292
Economic Development			-	32,133
Brownfield Redevelopment Authority			-	895
Drain Commission			-	606,878
Unrestricted	1,645,953	2,490,245	4,136,198	
Total Net Assets	\$ 7,240,371	\$ 2,490,245	\$ 9,730,616	\$ 7,283,929

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 2,324,438	\$ 729,165	\$ 806,231	\$ 41,450	\$ (747,592)		\$ (747,592)	
Public Safety	2,107,209	336,461	311,775		(1,458,973)		(1,458,973)	
Public Works	19,310				(19,310)		(19,310)	
Health and Welfare	1,335,749	20,690	137,827		(1,177,232)		(1,177,232)	
Community and Economic Development	296,784	190,846	145,757		39,819		39,819	
Recreation and Culture	115,438	48,431			(67,007)		(67,007)	
Other	948,441				(948,441)		(948,441)	
Interest on Long-Term Debt	26,605				(26,605)		(26,605)	
Total Governmental Activities	7,173,974	1,325,593	1,401,590	41,450	(4,405,341)	\$ -	(4,405,341)	
Business-Type Activities								
Delinquent Tax Revolving Fund	5,123	220,760				215,637	215,637	
Nonmajor Enterprise Funds	44,549	114,792				70,243	70,243	
Total Business-Type Activities	49,672	335,552	-	-	-	285,880	285,880	
Total Primary Government	\$ 7,223,646	\$ 1,661,145	\$ 1,401,590	\$ 41,450	\$ (4,405,341)	\$ 285,880	\$ (4,119,461)	
Component Units								
Road Commission	\$ 3,214,851	\$ 1,195,330	\$ 2,444,030	\$ 186,917				\$ 611,426
Economic Development Corporation	2,590		11,033					8,443
Brownfield Redevelopment Authority	7,310	5						(7,305)
Drain Commission								
Public Works	87,224	114,115	19,730					46,621
Interest on Long-Term Debt	27,459							(27,459)
Total Component Units	\$ 3,224,751	\$ 1,195,335	\$ 2,474,793	\$ 186,917	\$ -	\$ -	\$ -	\$ 631,726
General Revenues								
Property Taxes					\$ 4,727,282		\$ 4,727,282	\$ 7,218
Interest Earnings							-	16,419
Unrestricted Investment Earnings					56,772	\$ 57,382	114,154	
Rentals					5,000		5,000	
Other Revenues					26,272		26,272	
Transfers					393,124	(393,124)	-	
Total General Revenues, Special Item and Transfers					5,208,450	(335,742)	4,872,708	23,637
Change in Net Assets					803,109	(49,862)	753,247	655,363
Net Assets--Beginning					6,437,262	2,540,107	8,977,369	6,628,566
Net Assets--Ending					\$ 7,240,371	\$ 2,490,245	\$ 9,730,616	\$ 7,283,929

The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006**

EXHIBIT C

	General Fund	911 Service Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 125,706	\$ 166,233	\$ 1,869	\$ 295,211	\$ 589,019
Investments		273,548		312,905	586,453
Receivables					
Taxes--Current Levy		387,880	723,334	1,153,818	2,265,032
Taxes--Summer Levy	162,459				162,459
Accounts	18,705	5,834		46	24,585
Notes				1,168,955	1,168,955
Due From Local Units of Government	11,823				11,823
Due From Other Counties	56,617				56,617
Due From State	56,853	25,794		90,901	173,548
Due From Other Funds--Primary Government	759,318		723,334		1,482,652
Advances to Other Funds--Primary Government	3,000				3,000
Advances to Other Funds--Component Units	47,000				47,000
Total Assets	\$ 1,241,481	\$ 859,289	\$ 1,448,537	\$ 3,021,836	\$ 6,571,143
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities					
Accounts Payable	\$ 109,530	\$ 10,495		\$ 30,741	\$ 150,766
Due to Other Funds--Primary Government	723,334			8,680	732,014
Due to State				45,884	45,884
Accrued Liabilities	44,892	8,557		12,871	66,320
Long-Term Advances From Other Funds--Primary Government				3,000	3,000
Deferred Revenue--Taxes	162,458	387,880		1,153,818	1,704,156
Deferred Revenue--Other				1,168,955	1,168,955
Total Liabilities	1,040,214	406,932	\$ -	2,423,949	3,871,095
Fund Equity					
Fund Balances					
Reserved for					
911 Services		452,357			452,357
Capital Projects				32,605	32,605
Non-Major Special Revenue Programs				563,959	563,959
Long-Term Advances to Other Funds	50,000				50,000
Designated for					
Capital Projects				1,323	1,323
Unreserved--Undesignated	151,267		1,448,537		1,599,804
Total Fund Equity	201,267	452,357	1,448,537	597,887	2,700,048
Total Liabilities and Fund Equity	\$ 1,241,481	\$ 859,289	\$ 1,448,537	\$ 3,021,836	\$ 6,571,143

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT C-1

Fund Balances--Total Governmental Funds	\$ 2,700,048
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds.

Add--Capital Assets	5,832,500
Deduct--Accumulated Depreciation	<u>(1,935,706)</u>

Net Capital Asset Addition	<u>3,896,794</u>
----------------------------	------------------

Revenues that do not provide current financial resources are not reported as revenue in the governmental funds.	1,331,414
--	-----------

Certain liabilities, such as compensated absences are not due and
payable in the current period. Therefore, they are not reported
in the funds' statement.

Deduct--Long-Term Debt	(520,252)
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(167,633)</u>

Net Assets of Governmental Activities	<u><u>\$ 7,240,371</u></u>
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The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT D

	General Fund	911 Service Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and Penalties	\$2,671,365	\$372,621	\$ 423,334	\$1,097,503	\$ 4,564,823
Licenses and Permits	8,612			109,249	117,861
Federal Grants	57,236			242,329	299,565
State Grants	526,429	109,001		182,630	818,060
Contributions From Local Units	99,931				99,931
Charges for Services	756,453	79,244		110,000	945,697
Fines and Forfeitures	11,097			20,893	31,990
Interest and Rentals	55,899	5,873		334	62,106
Other Revenue	251,544			157,062	408,606
Total Revenues	4,438,566	566,739	423,334	1,920,000	7,348,639
Expenditures					
Current					
General Government	2,066,279			217,636	2,283,915
Public Safety	1,007,947	440,259		569,891	2,018,097
Public Works	19,310				19,310
Health and Welfare	326,110			1,009,639	1,335,749
Community and Economic Development	5,744			291,040	296,784
Recreation and Cultural	8,635			70,306	78,941
Other	948,441				948,441
Capital Outlay	87,571	121,943		64,023	273,537
Debt Service					
Principal	53,807			37,331	91,138
Interest and Fiscal Fees	1,739			24,866	26,605
Total Expenditures	4,525,583	562,202	-	2,284,732	7,372,517
Excess of Revenues Over (Under) Expenditures	(87,017)	4,537	423,334	(364,732)	(23,878)
Other Financing Sources (Uses)					
Interfund Transfers In					
Primary Government	525,140			412,521	937,661
Interfund Transfers (Out)					
Primary Government	(353,126)	(14,811)		(176,600)	(544,537)
Total Other Financing Sources (Uses)	172,014	(14,811)	-	235,921	393,124
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	84,997	(10,274)	423,334	(128,811)	369,246
Fund Balance--January 1, 2006	116,270	462,631	1,025,203	726,698	2,330,802
Fund Balance--December 31, 2006	\$ 201,267	\$ 452,357	\$ 1,448,537	\$ 597,887	\$ 2,700,048

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT D-1

Net Change in Fund Balances--Total Governmental Funds	\$ 369,246
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Amounts reported for governmental activities in the Statement of Activities are different because:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	235,319
--	---------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	273,537
Deduct--Depreciation Expense	(169,880)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	91,138
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Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in the funds.	<div style="border-top: 1px solid black; display: inline-block;">3,749</div>
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Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 803,109</div>
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The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2006**

EXHIBIT E

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total Enterprise Funds
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 895,426	\$ 92,346	\$ 987,772
Investments	840,517		840,517
Delinquent Taxes Receivable	634,961		634,961
Due From Other Governmental Units	19,214		19,214
Due From Other Funds--Component Unit	5,000		5,000
Advance to Other Governmental Units	5,346		5,346
Total Assets	2,400,464	92,346	2,492,810
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable		272	272
Due to Other Funds--Primary Government	2,293		2,293
Total Current Liabilities	2,293	272	2,565
Total Noncurrent Liabilities	-	-	-
Total Liabilities	2,293	272	2,565
<u>NET ASSETS</u>			
Unrestricted	2,398,171	92,074	2,490,245
Total Net Assets	\$ 2,398,171	\$ 92,074	\$ 2,490,245

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT F

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Interest on Delinquent Taxes	\$ 152,707		\$ 152,707
Property Tax Administration Fees	62,850		62,850
Charges for Services	5,203	\$ 114,792	119,995
Total Operating Revenues	220,760	114,792	335,552
Operating Expenses			
Title Search Fees		30,505	30,505
Supplies and Materials	5,123	6,620	11,743
Other		7,424	7,424
Total Operating Expenses	5,123	44,549	49,672
Operating Income (Loss)	215,637	70,243	285,880
Nonoperating Revenues (Expenses)			
Interest and Investment Revenue	57,382		57,382
Total Nonoperating Revenues (Expenses)	57,382	-	57,382
Income (Loss) Before Contributions and Transfers	273,019	70,243	343,262
Capital Contributions			-
Interfund Transfers			
Transfers In	176,600		176,600
Transfers (Out)	(569,724)	-	(569,724)
Change in Net Assets	(120,105)	70,243	(49,862)
Net Assets--Beginning of Year	2,518,276	21,831	2,540,107
Net Assets--End of Year	\$ 2,398,171	\$ 92,074	\$ 2,490,245

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT G

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total
Cash Flows From Operating Activities			
Interest on Delinquent Taxes	\$ 152,707		\$ 152,707
Property Tax Administration Fees	62,850		62,850
Charges for Services	5,203	\$114,792	119,995
Delinquent Taxes Collected	(24,822)		(24,822)
Goods and Services Purchased	(5,123)	(44,278)	(49,401)
Net Cash Provided by Operating Activities	190,815	70,514	261,329
Cash Flows From Noncapital Financing Activities			
(Increase) or Decrease in Due From Other Governmental Units	1,326		1,326
(Increase) or Decrease in Due From Other Funds	(4,307)		(4,307)
Transfers In/(Out)	(393,124)		(393,124)
Net Cash Flows From Noncapital Financing Activities	(396,105)	-	(396,105)
Cash Flows From Investing Activities			
Interest on Cash Equivalents	57,382		57,382
Purchase of Investments	(135,069)		(135,069)
Net Cash Provided by Investing Activities	(77,687)	-	(77,687)
Net Increase in Cash and Cash Equivalents	(282,977)	70,514	(212,463)
Cash and Cash Equivalents--January 1, 2006	1,178,403	21,832	1,200,235
Cash and Cash Equivalents--December 31, 2006	<u>\$ 895,426</u>	<u>\$ 92,346</u>	<u>\$ 987,772</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 215,637	\$ 70,243	\$ 285,880
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
Decrease (Increase) in Delinquent Taxes Receivable	(24,822)		(24,822)
Increase (Decrease) in Accounts Payable		271	271
Net Cash Provided by Operating Activities	<u>\$ 190,815</u>	<u>\$ 70,514</u>	<u>\$ 261,329</u>

The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2006**

EXHIBIT H

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	<u>\$ 1,144,642</u>
Total Assets	<u><u>\$ 1,144,642</u></u>

LIABILITIES AND FUND BALANCE

Liabilities	
Due to Other Funds--Primary Government	\$ 748,345
Due to State of Michigan	112,065
Undistributed Tax Collections	126,331
Undistributed Penal Fines	67,967
Other Liabilities	<u>89,934</u>
Total Liabilities	<u><u>\$ 1,144,642</u></u>

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
December 31, 2006

EXHIBIT I

December 31, 2006	GOVERNMENTAL ACTIVITIES				
	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Total
<u>ASSETS</u>					
Current Assets					
Cash	\$ 451,055	\$ 32,133	\$ 895	\$ 318,884	\$ 802,967
Receivables					
Accounts	1,480				1,480
Interest	615				615
Due From Local Units of Government	16,479				16,479
Due From State	467,096				467,096
Inventories	223,192				223,192
Prepaid Expenses	74,470				74,470
Total Current Assets	1,234,387	32,133	895	318,884	1,586,299
Noncurrent Assets					
Special Assessments Receivable					
Due Within One Year				141,567	141,567
Due in More Than One Year				203,327	203,327
Due From Local Units of Government					
Due Within One Year				18,000	18,000
Due in More Than One Year				302,000	302,000
Capital Assets (Net of Accumulated Depreciation)	5,362,356			685,375	6,047,731
Total Noncurrent Assets	5,362,356	-	-	1,350,269	6,712,625
Total Assets	6,596,743	32,133	895	1,669,153	8,298,924
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable	138,528			4,900	143,428
Due to Other Funds--Primary Government				5,000	5,000
Accrued Liabilities	17,420				17,420
Deferred Revenue	60,504				60,504
Total Current Liabilities	216,452	-	-	9,900	226,352
Noncurrent Liabilities					
Advances From State	195,353				195,353
Long-Term Advances From					
Primary Government--General Fund				47,000	47,000
Bonds Payable					
Due Within One Year				18,000	18,000
Due in More Than One Year				302,000	302,000
Notes Payable					
Due Within One Year				30,000	30,000
Due in More Than One Year				150,000	150,000
Vested Employee Benefits Payable					
Due Within One Year	1,336				1,336
Due in More Than One Year	44,954				44,954
Total Noncurrent Liabilities	241,643	-	-	547,000	742,353
Total Liabilities	458,095	-	-	556,900	1,014,995
<u>NET ASSETS</u>					
Invested in Capital Assets--Net of Related Debt	5,362,356			505,375	5,867,731
Restricted for					
County Roads	776,292				776,292
Economic Development		32,133			32,133
Brownfield Redevelopment Authority			895		895
Drain Commission					
Debt Service				20	20
Capital Projects				606,858	606,858
Total Net Assets	\$ 6,138,648	\$ 32,133	\$ 895	\$ 1,112,253	\$ 7,283,929

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended December 31, 2006

EXHIBIT J

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Total
Governmental Activities									
Road Commission									
Public Works	\$ 3,214,851	\$ 1,195,330	\$ 2,444,030	\$ 186,917	\$ 611,426				\$ 611,426
Total Road Commission	3,214,851	1,195,330	2,444,030	186,917	611,426	\$ -	\$ -	\$ -	611,426
Economic Development Corporation									
Community and Economic Development	2,590	-	11,033			8,443			8,443
Total Economic Development Corporation	2,590	-	11,033	-	-	8,443		-	8,443
Brownfield Redevelopment Authority									
Community and Economic Development	7,310	5					(7,305)		(7,305)
Total Brownfield Redevelopment Authority	7,310	5	-	-	-	-	(7,305)	-	(7,305)
Drain Commission									
Public Works	87,224	114,115	19,730					46,621	46,621
Interest on Related Debt	27,459							(27,459)	(27,459)
Total Drain Commission	\$ 114,683	\$ 114,115	\$ 19,730	\$ -	-	-	-	19,162	19,162
General Revenues									
Property Taxes							7,218		7,218
Investment Earnings					16,419				16,419
Total General Revenues, Special Items and Transfers					16,419	-		-	23,637
Change in Net Assets					627,845	8,443		19,162	655,363
Net Assets--Beginning of Year					5,510,803	23,690	982	1,093,091	6,628,566
Net Assets--End of Year					\$ 6,138,648	\$ 32,133	\$ 895	\$ 1,112,253	\$ 7,283,929

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Arenac County, Michigan, was organized in 1883 and covers an area of 366 square miles divided into 12 townships, 3 cities and 3 villages. The county is governed by an elected 5-member board of commissioners and provides services to its more than 17,269 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Arenac County (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units, discussed below, are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the basic financial statements include the financial data of the Arenac County Road Commission, Economic Development Corporation, Brownfield Redevelopment Authority and Drain Commission. These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

BLENDED COMPONENT UNITS

Building Authority

The Arenac County Building Authority is governed by a 5-member board appointed by the county board of commissioners. Although it is legally separate from the county, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings.

Arenac County Housing Commission

The Arenac County Housing Commission was created on March 17, 1975 in the State of Michigan, under the provisions of Public Act 18 of the Extra Session of 1933, as amended. A 5-member board appointed by the Arenac County Board of Commissioners administers the Housing Commission. Although it is legally separate from the county, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County of Arenac. The Arenac County Board of Commissioners approves all grants received by the Housing Commission.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DISCRETELY PRESENTED COMPONENT UNITS

Road Commission

The Arenac County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval.

Economic Development Corporation

The Arenac County Economic Development Corporation (EDC) was established pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its 11-member board of directors. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county.

Brownfield Redevelopment Authority

The Arenac County Brownfield Redevelopment Authority (BRA) was established pursuant to the provisions of Public Act 381 of 1996, as amended. The BRA is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its 11-member board of directors. The BRA may not issue debt without the county's approval and the BRA administers the County's Brownfield Redevelopment Authority Fund established to facilitate the implementation of Brownfield plans relating to the identification and treatment of environmentally distressed (functionally obsolete and/or blighted) areas so as to promote revitalization within the municipal limits of Arenac County.

Drain Commission

The Arenac County Drain Commission was established pursuant to the Drain Code of 1956. The drain commissioner has the responsibility to administer the State Drain Code, which involves planning, developing, and maintaining surface water drainage systems within the county. The Arenac County Drain Commission may issue debt or levy a tax as authorized by the Drain Code without the approval of the county board of commissioners.

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Offices

Arenac County Housing Commission
120 North Grove Street
Standish, Michigan 48658

Arenac County Road Commission
116 Bridge Street
Omer, Michigan 48649

Arenac County Economic Development Corporation
120 North Grove Street
Standish, Michigan 48658

Arenac County Drain Commission
120 North Grove Street
Standish, Michigan 48658

Arenac County Brownfield Redevelopment Authority
120 North Grove Street
Standish, Michigan 48658

Jointly Governed Organization--Central Michigan District Health Department

Arenac County, in conjunction with Arenac, Gladwin, Isabella, Osceola and Roscommon counties, has created the Central Michigan District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Isabella County, as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation.

Member counties' percentages of the net operating budget for 2006 were:

Arenac	9.94%	Isabella	28.50%
Gladwin	14.36%	Osceola	12.92%
Clare	16.85%	Roscommon	17.43%

Arenac County's 2006 formula appropriation to the District Health Department was \$116,894. The county also paid the Health Department \$6,730 for the family nutrition program and \$7,620 for the cigarette tax pass through.

Jointly Governed Organization--Bay Arenac Community Mental Health Services Board

Arenac County, in conjunction with Bay County, has created the Bay Arenac Community Mental Health Services Board which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended. Community Mental Health Services Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by the respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Bay County, as a discretely presented component unit. The funding of the Mental Health Authority operations is based pro rata on each unit's population to the district's total population.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Arenac County's 2006 appropriation to the Mental Health Board was \$104,812.

Related Organizations--Arenac County Council on Aging

Arenac County Council on Aging is a non-profit corporation. The council is a legally separate organization established for providing and promoting services to the aged and disabled. The voters approved a special millage to fund the Council on Aging.

The council consists of the entire geographic area of Arenac County. It is governed by not more than 15 or less than 12 board members. Members serve for up to two consecutive 3-year terms and are elected by a majority of the presiding board. Upon dissolution, all assets shall be distributed for one or more exempt purposes.

Arenac County does levy a tax to provide services to older persons. Revenues from the tax are accounted for in a special revenue fund. An agreement for services to older persons was entered into with the Arenac County Council on Aging.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

The General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 911 Service Fund accounts for property taxes, surcharges and State wireless surcharges used to support the 911 service provided by the county.

The Revenue Sharing Reserve Fund accounts for advance property tax collections used to replace the state revenue sharing program within the county.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest.

Additionally, the county reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds that are subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Delinquent Tax Fund and the Jail Commissary Fund are collection fees for delinquent taxes and sales commissions, respectively. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Inventory--Road Commission (Component Unit)

Inventory, consisting of various operating parts, supplies and road material is stated at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used. Inventories consisting of equipment parts and supplies of \$120,934 and road materials of \$102,258 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

PROPERTY, PLANT AND EQUIPMENT

Capital Assets--Primary Government and Drain Component Unit

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land Improvements	20 to 25 years
Buildings	15 to 50 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

Capital Assets--Road Commission (Component Unit)

Capital assets, which include property, equipment, and infrastructure assets (roads, bridges, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Arenac County Road Commission as assets with an initial, individual cost of more that \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the Road Commission's fund financial statements and are subsequently capitalized in the government-wide statements through an adjustment to the Road Commission's General Operating Fund.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available fund balance of the Road Commission's General Operating Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2006 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, that begin with the year ended December 31, 2004.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	5 to 30 years
Infrastructure--Bridges	12 to 50 years
Infrastructure--Traffic Signals	15 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Other Financing Sources (Uses)

In the fund financial statements, the transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

Compensated Absences (Vacation and Sick Leave)

It is the county's policy to permit employees to accumulate earned unused sick and vacation pay benefits. A liability for vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General Fund and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund, County Economic Development Corporation Fund, and the County Brownfield Redevelopment Authority Fund, whose budgets are adopted and administered by each of their boards. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The General Fund budget is adopted at the activity level and control is exercised at that level. The special revenue funds' budgets are adopted at the functional level and control is exercised at that level. The county board of commissioners has authorized the county treasurer to make General Fund budget transfers between activities when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--MATERIAL VIOLATIONS OF LEGAL PROVISIONS

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The county's actual expenditures for the funds budgeted have been shown on an activity basis for the General Fund and function basis for special revenue funds. The approved budgets of the county were adopted at the activity level for the General Fund and at the function level for special revenue funds.

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for special revenue funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Board of Commissioners	\$ 100,800	\$ 106,026	\$ (5,226)
District Court	283,077	290,043	(6,966)
Public Guardian	59,331	59,938	(607)
Probate Court	176,139	176,332	(193)
Equalization	115,012	115,108	(96)
Treasurer	97,590	98,613	(1,023)
Professional Services	25,000	28,045	(3,045)
Public Safety			
Secondary Road Patrol	56,938	63,696	(6,758)
School Liaison Officer	38,617	39,356	(739)
Emergency Management	16,990	17,046	(56)
Animal Control	56,254	57,315	(1,061)
Health and Welfare			
Medical Examiner	44,000	49,430	(5,430)
Transfers (Out)--Friend of Court	-	17,126	(17,126)
Park Fund			
Recreational and Cultural	53,691	54,163	(472)
911 Service			
Capital Outlay	108,000	121,943	(13,943)
Law Library			
General Government	6,500	6,729	(229)
Senior Citizen Millage			
Health and Welfare	348,500	355,626	(7,126)
Drug and Alcohol			
Public Safety	-	500	(500)
Housing			
Community and Economic Development	195,800	291,040	(95,240)
Family Court Juvenile			
Health and Welfare	13,000	13,959	(959)
Department of Human Services			
Health and Welfare	5,000	5,463	(463)
Child Care Probate			
Health and Welfare	212,000	380,199	(168,199)
Veterans Trust			
Health and Welfare	1,800	4,917	(3,117)

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county has designated nine financial institutions for deposit of the county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

At year end, Arenac County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Carrying Amounts</u>				
<u>Cash and Deposits</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 589,019	\$ 987,772	\$ 1,144,642	\$ 2,721,433	\$ 802,967
Investments	<u>586,453</u>	<u>840,517</u>	<u> </u>	<u>1,426,970</u>	<u> </u>
Total	<u>\$1,175,472</u>	<u>\$1,828,289</u>	<u>\$ 1,144,642</u>	<u>\$4,148,403</u>	<u>\$ 802,967</u>

The breakdown between deposits and investments, as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,717,533	\$ 802,967
Investments in Securities, Mutual Funds and Similar Vehicles	1,426,970	
Petty Cash and Cash on Hand	<u>3,900</u>	<u>300</u>
Total	<u>\$4,148,403</u>	<u>\$ 803,267</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the county's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized;
- b. Collateralized with securities held by the pledging financial institution; or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The county's policy requires the following criteria to lessen the custodial credit risk: 1) all financial institutions holding the county's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the county funds; 2) a bank, savings and loan association or credit union holding county funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and 3) no deposit in any financial organization may be in excess of 50 percent of the net worth of the organization.

At December 31, 2006, the bank balance of the primary government's deposits is \$2,825,924, of which \$300,000 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$759,067 of which \$100,000 was covered by Federal depository insurance.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Public Act 35 of 1997 requires county deposits be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. The county had no common cash deposits subject to foreign currency risk at December 31, 2006.

Types of Investments--Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The county has limited its investments to money markets.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial credit risk, the credit risk and the interest rate risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the county will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty; or

The counterparty's trust department or agent but not in the government's name.

The county does not have an investment policy for managing custodial credit risk. At December 31, 2006, common cash investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the county's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Financial Institution</u>	<u>Investment Type</u>	<u>Rated Debt Investments</u>		
		<u>Fair Value</u>	<u>Credit Rating</u>	<u>Rating Institution</u>
Chase Bank				
(Formerly Bank One)	Governmental Money Market	\$ 30,277	Unrated	
MBIA Class	Money Market Funds	568,771	AAA	Fitch
Comerica	Money Market Funds	409,258	Unrated	
Multi Bank Securities	Long-Term CDs	313,991	Unrated	
American Freedom Funds	Governmental Money Market	104,673	Unrated	
	Total	<u>\$1,426,970</u>		

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The county's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At December 31, 2006, the fair value of the county's investments are listed above with all maturities due within 12 months or less.

NOTE E--PROPERTY TAXES

Taxes Receivable--Current

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

Although the county's 2006 ad valorem taxes are levied and collectible on December 1st, it is the county's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the county operations.

The 2006 State equalized valuation of Arenac County amounted to \$743,671,204 and the taxable valuation is \$508,533,112, on which ad valorem taxes of 1.6395 mills were approved and levied for county operating purposes, .7392 mills for senior citizens programs, .5803 mills for county ambulance service, .9857 mills for the county's road patrol and .7885 mills for E-911 service. The 2006 current tax levy is recognized as property taxes receivable in the respective funds with an offsetting credit to deferred revenue. However, property taxes receivable and deferred revenue in the General Fund have been reduced by \$723,334 because the 2006 county operating tax levy was recorded as 2006 revenue in the General Fund and Revenue Sharing Reserve Fund, respectively, in accordance with Public Act 357 of 2004 which provided a funding mechanism to serve as a substitute for revenue sharing payments from the State to the county. This substitute funding mechanism involves a gradual shift, over three years, of county property tax millage from a winter tax levy to a summer tax levy.

Taxes Receivable--Summer Levy

The summer taxes receivable in the General Fund of \$162,459 consists of uncollected real property taxes levied July 1, 2006, due September 30, 2006, but have not been collected at December 31, 2006. Because the revenues that are not considered to be available to liquidate liabilities of the current period, the receivable is offset by deferred revenue.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--PROPERTY TAXES (Continued)

Taxes Receivable--Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes levied prior to 2006. The delinquent real property taxes may be summarized as follows:

2005	\$521,118
2004	70,648
2003	5,131
2002	10,943
2001 and Prior	<u>27,121</u>
Total Delinquent Taxes Receivable	<u><u>\$634,961</u></u>

NOTE F--RECEIVABLES

Receivables--Primary Government

The following amounts listed as accounts receivable in the primary government funds have been collected within 60 days after year end and are not offset by deferred revenue:

General Fund (Major Fund)	
Billings	\$ 18,705
911 Service Fund (Major Fund)	
Phone Surcharges	5,834
Nonmajor Governmental Funds	
Park Fund--Rental Fees	<u>46</u>
Total Primary Government Receivables	<u><u>\$ 24,585</u></u>

Receivables-Component Units

The receivables for the component units are presented in the financial statements as follows:

Road Commission

The Road Commission reports accounts receivable of \$1,480 as a sundry receivable for work done for residents and private companies that have not yet been collected.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--RECEIVABLES (Continued)

Loans Receivable--Housing Commission Fund (Primary Government)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0 to 3% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue being recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation or rehabilitation of residential buildings. At December 31, 2006, the total outstanding loans were \$1,168,955.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<u>Primary Government</u>		
Taxes--Current Levy	\$ 1,704,156	
Long-Term Notes Receivable	<u>1,168,955</u>	<u> </u>
Total Primary Government	<u>2,873,111</u>	<u>\$ -</u>
Special Assessments	344,894	
Due From Village of Twining--Sewer (Note 1)	<u>320,000</u>	<u> </u>
Total Component Unit	<u>664,894</u>	<u>-</u>
Total	<u><u>\$3,538,005</u></u>	<u><u>\$ -</u></u>

Note 1--The Village of Twining's February 29, 2005 fiscal year end audit report includes the following "going concern" note: Untimely billings for services rendered, insufficient sewer assessments, and an inability to meet debt requirements has created a going concern issue. Management plans to seek additional grants from the State of Michigan to assist in the payment of the debt.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds			
General	\$ 759,318	General	\$ 723,334
Revenue Sharing Reserve	723,334	Nonmajor Governmental	8,680
		Delinquent Tax Fund	2,293
		Agency Funds	748,345
Total	<u>\$1,482,652</u>		<u>\$1,482,652</u>

The amount of interfund receivables for the primary government and component units are as follows:

<u>Receivable Fund--Primary Government</u>	<u>Amount</u>	<u>Payable Fund--Component Unit</u>	<u>Amount</u>
Due From/To Other Funds			
Delinquent Tax Fund	\$ 5,000	Drain	\$5,000
Total	<u>\$ 5,000</u>		<u>\$5,000</u>

The amounts of interfund receivables and payables for the component units are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds			
Drain Revolving	\$ 12,080	Drain	\$ 12,080
Total	<u>\$ 12,080</u>		<u>\$ 12,080</u>
Total Reporting Entity	<u>\$ 1,499,732</u>	Total Reporting Entity	<u>\$1,499,732</u>

All amounts of interfund receivables and payables are to be repaid in the following fiscal year.

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances To/From Other Funds			
General	\$ 3,000	Non-Major Governmental	\$3,000
Total Primary Government	<u>\$ 3,000</u>	Total Primary Government	<u>\$3,000</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS (Continued)

Primary Government and Discrete Component Units

	<u>Amount</u>		<u>Amount</u>
Advances To/From Other Funds			
Primary Government		Component Unit	
General	<u>\$ 47,000</u>	Drain Revolving	<u>\$47,000</u>
Total Primary Government	<u>\$ 47,000</u>	Total Component Unit	<u>\$47,000</u>
Total Reporting Entity	<u>\$ 50,000</u>	Total Reporting Entity	<u>\$50,000</u>

The 2006 operating transfers from Exhibits D and F can be summarized as follows for the primary government and component units:

Interfund Transfers

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General Fund	\$ 525,140	General Fund	\$ 353,126
Non-Major Governmental	412,521	Non-Major Governmental	176,600
Delinquent Tax Fund	176,600	Delinquent Tax Fund	569,724
		911 Fund	14,811
Total Primary Government	<u>\$1,114,261</u>		<u>\$1,114,261</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS

Capital asset activity of the primary government for the current year, as follows:

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land	\$ 1,619,288			\$ 1,619,288
Subtotal	1,619,288	\$ -	\$ -	1,619,288
Capital Assets Being Depreciated				
Land Improvements	102,605			102,605
Buildings	3,364,861	80,571		3,445,432
Equipment	184,377	128,943		313,320
Vehicles	287,832	64,023		351,855
Total	3,939,675	273,537	-	4,213,212
Less Accumulated Depreciation				
Land Improvements	14,518	5,051		19,569
Buildings	1,447,539	101,827		1,549,366
Equipment	60,678	32,856		93,534
Vehicles	243,091	30,146		273,237
Total	1,765,826	169,880	-	1,935,706
Net Capital Assets Being Depreciated	2,173,849	273,537	169,880	2,277,506
Total Net Capital Assets	<u>\$ 3,793,137</u>	<u>\$ 273,537</u>	<u>\$ 169,880</u>	<u>\$ 3,896,794</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 47,117
Public Safety	86,266
Recreation and Cultural	<u>36,497</u>
Total Depreciation Expense	<u>\$ 169,880</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS (Continued)

Road Commission--Discretely Presented Component Unit

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 9,200			\$ 9,200
Construction in Progree	-	\$ 75,333		75,333
Subtotal	9,200	75,333	\$ -	84,533
Capital Assets Being Depreciated				
Buildings	385,244		4,561	380,683
Road Equipment	3,167,664	1,725		3,169,389
Shop Equipment	108,462	1,349		109,811
Engineers' Equipment	43,447			43,447
Yard and Storage Equipment	137,103			137,103
Office Equipment	103,175			103,175
Infrastructure--Roads	3,655,127	1,107,120		4,762,247
Infrastructure--Bridges	524,170	6,199		530,369
Total	8,124,392	1,116,393	4,561	9,236,224
Less Accumulated Depreciation				
Buildings	332,419	11,908	4,561	339,766
Road Equipment	2,437,881	147,236		2,585,117
Shop Equipment	97,111	1,688		98,799
Engineers' Equipment	38,250	1,507		39,757
Yard and Storage Equipment	123,531	5,978		129,509
Office Equipment	71,594	4,121		75,715
Infrastructure--Roads	336,006	313,695		649,701
Infrastructure--Bridges	26,421	13,616		40,037
Total	3,463,213	499,749	4,561	3,958,401
Net Capital Assets Being Depreciated	4,661,179	1,116,393	499,749	5,277,823
Total Net Capital Assets	<u>\$ 4,670,379</u>	<u>\$ 1,191,726</u>	<u>\$ 499,749</u>	<u>\$ 5,362,356</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS (Continued)

Drain Commission Discretely Presented Component Unit

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Infrastructure				
1913 Drains	\$ 115,440			\$ 115,440
1933 Drains	1,829,190			1,829,190
1953 Drains	1,692,600			1,692,600
Bodwin Drain	<u>192,167</u>			<u>192,167</u>
Subtotal	<u>3,829,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,829,397</u>
Less Accumulated Depreciation for				
Infrastructure				
1913 Drains	115,440			115,440
1933 Drains	1,780,397	24,389		1,804,786
1953 Drains	1,196,104	22,568		1,218,672
Bodwin Drain	<u>2,562</u>	<u>2,562</u>		<u>5,124</u>
Subtotal	<u>3,094,503</u>	<u>49,519</u>	<u>-</u>	<u>3,144,022</u>
Net Capital Assets Being Depreciated	<u>734,894</u>	<u>(49,519)</u>	<u>49,519</u>	<u>685,375</u>
Drain Commission--Component Unit				
Total Net Capital Assets	<u>\$ 734,894</u>	<u>\$ (49,519)</u>	<u>\$ 49,519</u>	<u>\$ 685,375</u>

NOTE I--LONG-TERM DEBT

The county issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the county. County contractual agreements and installment purchase agreements are also general obligations of the county. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the county is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Bond and contractual obligation activity can be summarized, as follows:

<u>Governmental Activities</u>	<u>Balance 01/01/06</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Municipal lease purchase agreement for courthouse building renovation with capital cost of \$403,695; requires 19 semi-annual payments of \$28,184 beginning November 1998 and ending November 2006 at an interest rate of 6%.	\$ 53,807	\$ (53,807)	-	
Arenac County Building Authority Municipal Securities for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000; maturing serially through 2021 with amounts ranging from \$25,000 to \$250,000 at an interest rate ranging from 3.8% to 5.0%.	550,000	(35,000)	\$ 515,000	\$ 35,000
Municipal lease purchase agreement for the acquisition of park maintenance equipment with a capital cost of \$12,960 beginning June 2004 and ending June 2008 at an interest rate of 7.9%.	7,582	(2,330)	5,252	2,522
Accrued Employee Benefits Payable	<u>171,382</u>	<u>(3,749)</u>	<u>167,633</u>	
Total Governmental Activities	<u>\$ 782,771</u>	<u>\$ (94,886)</u>	<u>\$ 687,885</u>	<u>\$ 37,522</u>
<u>Drain Commission</u>				
Village of Twining Sanitary Sewer Drain, original bonds dated October 9, 1989, in the amount of \$532,000 at 6% interest for 23 years.	\$ 337,000	\$ (17,000)	\$ 320,000	\$ 18,000
Bodwin Drainage District, original bond dated December 1, 2004, in the amount of \$210,000 at 3.69% interest for 8 years.	<u>210,000</u>	<u>(30,000)</u>	<u>180,000</u>	<u>30,000</u>
Total Drain Commission	<u>\$ 547,000</u>	<u>\$ (47,000)</u>	<u>\$ 500,000</u>	<u>\$ 48,000</u>
<u>Road Commission</u>				
Accrued Employee Benefits Payable	<u>\$ 42,812</u>	<u>\$ 3,478</u>	<u>\$ 46,290</u>	<u>\$ 1,336</u>
Total Road Commission	<u>\$ 42,812</u>	<u>\$ 3,478</u>	<u>\$ 46,290</u>	<u>\$ 1,336</u>
Total Component Unit Activities	<u>\$ 589,812</u>	<u>\$ (43,522)</u>	<u>\$ 546,290</u>	<u>\$ 49,336</u>
Total Reporting Entity Activities	<u>\$ 1,372,583</u>	<u>\$ (138,408)</u>	<u>\$ 1,234,175</u>	<u>\$ 86,858</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

The debt service requirements to maturity for the county's debt obligations outstanding at December 31, 2006 are as follows:

Arenac County Building Authority Municipal Securities, dated October 1, 2001, for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000, maturing serially through 2021 with amounts ranging from 25,000 to 250,000, at an interest rate ranging from 3.8% to 5.0%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2007	\$ 35,000	\$ 22,915	\$ 57,915
2008	35,000	21,568	56,568
2009	35,000	20,176	55,176
2010	35,000	18,733	53,733
2011	35,000	17,236	52,236
2012-2016	175,000	62,163	237,163
2017-2021	<u>165,000</u>	<u>19,625</u>	<u>184,625</u>
	<u>\$515,000</u>	<u>\$182,416</u>	<u>\$697,416</u>

Municipal lease purchase agreement for the acquisition of park maintenance equipment with a capital cost of \$12,960 beginning June 2004 and ending June 2008 at an interest rate of 7.9%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2007	\$ 2,522	\$ 430	\$2,952
2008	<u>2,730</u>	<u>224</u>	<u>2,954</u>
	<u>\$ 5,252</u>	<u>\$ 654</u>	<u>\$5,906</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Drain (Component Unit)

Village of Twining Sanitary Sewer Drain--original bond dated October 9, 1989 in the amount of \$532,000 at 6.0% interest for 30 years.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2007	\$ 18,000	\$ 18,120	\$ 36,120
2008	20,000	17,520	37,520
2009	20,000	16,320	36,320
2010	22,000	15,120	37,120
2011	23,000	13,830	36,830
2012-2016	137,000	44,850	181,850
2017-2019	<u>80,000</u>	<u>6,540</u>	<u>86,540</u>
	<u>\$320,000</u>	<u>\$132,300</u>	<u>\$452,300</u>

Bodwin Drainage District, original bond dated December 1, 2004 in the amount of \$210,000 at 3.69% interest for 8 years.

<u>Year</u>	<u>Principal</u>	<u>1-Jun Interest</u>	<u>1-Dec Interest</u>	<u>Annual Total</u>
2007	\$ 30,000	\$ 3,321	\$ 3,321	\$ 36,642
2008	30,000	2,767	2,768	35,535
2009	30,000	2,214	2,214	34,428
2010	30,000	1,661	1,660	33,321
2011	30,000	1,107	1,107	32,214
2012	<u>30,000</u>	<u>553</u>	<u>554</u>	<u>31,107</u>
	<u>\$ 180,000</u>	<u>\$11,623</u>	<u>\$ 11,624</u>	<u>\$ 203,247</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The county and Road Commission (component unit) have accrued liabilities to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2006, as follows:

	<u>Sick/ Vacation</u>
Vested Employee Benefits Payable--Primary Government	
General Government	
County General Employees	\$ 57,592
District Court	18,023
Circuit Court	19,259
Public Safety	
Sheriff Department Employees	52,322
E-911 Office	<u>20,437</u>
Total Vested Employee Benefits Payable	
Primary Government	167,633
Vested Employee Benefits Payable--Component Unit	
Road Commission Employees	<u>46,290</u>
Total Vested Employee Benefits Payable	
Reporting Entity	<u><u>\$ 213,923</u></u>

The above amounts for the primary government are reported on the Statement of Net Assets as a noncurrent liability in the governmental activities column.

VACATION BENEFIT POLICIES--PRIMARY GOVERNMENT

County General, District Court, Circuit Court, Sheriff Department and E-911 Office Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a bi-weekly basis. The county has established a formal policy regarding a maximum authorized accumulation of vacation hours per individual union agreement.

SICK LEAVE BENEFIT POLICIES--PRIMARY GOVERNMENT

County General, District Court, Circuit Court, Sheriff Department and E-911 Office Employees

The county's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--COMPENSATED ABSENCES (Continued)

Compensated Absences--Road Commission Employees

Vacation and sick leave is reported in the Road Commission General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is included in the government-wide statements which encompasses both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

NOTE K--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Arenac County and the Arenac County Road Commission (component unit) are in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation for sheriff department employees and 2.25% for all other county employees. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy--Primary Government

The obligation to contribute to and maintain the system for county employees was established by negotiation with the county's competitive bargaining units and personnel policy. For 2005, county employees were not required to contribute a percentage of their annual covered payroll, as Arenac County paid 100 percent of the required annual contributions to the pension plan. For 2005, the county had six different groups in the plan: General--Other, Sheriff, Steelworkers Local; District Court--Other, District Court Steelworkers and Elected County Officials with the pension contribution rates at 12.54%, 14.08%, 12.54%, 0%, 7.97% and 20.57% of covered payroll, respectively.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT PLANS (Continued)

Funding Policy--Road Commission

The Road Commission is required to contribute at an actuarially determined rate; the current as a percentage of annual covered payroll are 17.92% for the General unit, 20.58% for the Administrative unit, 34.57% for the Engineer/Manager unit and 6.89% for the Office Manager/Clerk unit. The administration unit of Road Commission employees is required to contribute 1% of their gross income to the plan. All other Road Commission employees are not required to contribute to the plan. The contribution requirements of the Road Commission are established by Act 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission in accordance with negotiated labor agreements.

Annual Pension Cost

For the calendar year ended December 31, 2005, the county's annual pension cost was \$328,684 and the Road Commission's annual pension cost was \$193,658 which was equal to the county and Road Commission's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003. The county employees made no contributions in accordance with the union and personnel agreements. The employer contribution rates have been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)			Percentage of APC Contributed		Net Pension Obligation	
	County		Road				
	Employer	Employee	Employer	County	Road	County	Road
2003	\$251,697	\$ 69,289	\$ 169,217	100%	100%	\$0	\$0
2004	322,586		179,624	100%	100%	\$0	\$0
2005	328,684		193,658	100%	100%	\$0	\$0

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT PLANS (Continued)

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
2003						
General	\$ 4,677,240	\$ 6,791,345	\$ 2,114,105	69%	\$ 2,389,365	88%
Road	2,525,987	4,626,398	2,100,411	55%	941,888	223%
2004						
General	5,021,181	7,182,619	2,161,438	70%	2,347,853	92%
Road	2,582,806	4,895,630	2,312,824	53%	988,386	234%
2005						
General	5,332,404	7,748,466	2,416,062	69%	2,322,580	104%
Road	2,657,215	4,995,506	2,338,291	53%	954,404	245%

NOTE L--POST-EMPLOYMENT HEALTH BENEFITS--ROAD COMMISSION

In addition to the pension benefits described in Note K, the Road Commission provides post-retirement health care benefits, in accordance with State statutes, to employees retiring after February 9, 1994. The Road Commission pays the cost of the single subscriber portion of the health insurance monthly premium until retirees qualify for Medicare, provided that the employees retire from all active employment commensurate with their retirement from the Road Commission, the retiree is eligible to receive a pension benefit under the Road Commission's pension plan, the retiree must have had at least ten continuous years of service with the Road Commission at the time of retirement, and finally the employee must be at least 60 years of age at the time of retirement. Such retirees may, at their own expense, include their dependents under coverage of the Road Commission's group health plan by paying the monthly premium cost for such dependent coverage. Currently, 3 retirees meet those eligibility requirements. During the year ended December 31, 2006, expenditures of \$12,452 were recognized for post-retirement health care.

NOTE M--RISK MANAGEMENT

Primary Government

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

The county is self-insured for comprehensive liability; motor vehicle physical damage; and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). All other types of risk of loss are covered through commercial insurance.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--RISK MANAGEMENT (Continued)

All liability claims up to \$75,000 per claim are paid from the net contribution account of the county held by the authority. In addition, after meeting certain deductible requirements, all vehicle claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$1,000 per occurrence and 10% of the remaining up to \$100,000 are also paid from the county's contribution account. The authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$10,000,000.

The authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expenses incurred per occasion. All other risk is transferred to the pool.

NOTE N--CONTINGENT LIABILITIES

Primary Government

The county, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The county's insurance carrier estimates that the potential claims against the county, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the county.

Road Commission (Component Unit)

The Road Commission has been named as a defendant in various litigation involving pending lawsuits and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. Accordingly, no provision for any loss has been made in the financial statements.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE N--CONTINGENT LIABILITIES (Continued)

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursements to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

NOTE O--DEFERRED COMPENSATION PLAN

Primary Government

Arenac County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of the Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

NOTE P--FEDERAL AWARDS--ROAD COMMISSION (COMPONENT UNIT)

The Road Commission received \$186,917 of Federal assistance that was passed through and administered by the Michigan Department of Transportation. The "pass-through" Federal assistance will be included in the State's single audit procedures and was not considered during the determination of single audit requirements of the Road Commission.

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2006

EXHIBIT K

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance--January 1, 2006	-	-	\$ 116,270	\$ 116,270
Resources (Inflows)				
Property Taxes	\$ 2,652,393	\$ 2,666,602	2,671,365	4,763
Licenses and Permits	13,250	12,250	8,612	(3,638)
Federal Grants	6,500	8,461	57,236	48,775
State Grants	572,131	575,223	526,429	(48,794)
Contributions From Local Units of Government	96,500	94,662	99,931	5,269
Charges for Services	832,800	764,380	756,453	(7,927)
Fines and Forfeitures	20,000	17,000	11,097	(5,903)
Interest and Rentals	40,000	35,000	55,899	20,899
Other Revenue	250,530	262,006	251,544	(10,462)
Transfers From Other Funds	193,247	647,411	525,140	(122,271)
Amounts Available for Appropriation	4,677,351	5,082,995	5,079,976	(3,019)
Charges to Appropriations (Outflows)				
Current				
General Government	2,024,195	2,139,893	2,066,279	73,614
Public Safety	973,122	1,031,787	1,007,947	23,840
Public Works	20,010	20,010	19,310	700
Health and Welfare	314,972	320,892	326,110	(5,218)
Community and Economic Development	7,250	7,250	5,744	1,506
Recreation and Culture	-	8,635	8,635	-
Other	978,000	1,074,597	948,441	126,156
Capital Outlay	87,571	87,571	87,571	-
Debt Service				
Principal	53,800	53,929	53,807	122
Interest	2,431	2,431	1,739	692
Transfers to Other Funds	216,000	336,000	353,126	(17,126)
Total Charges to Appropriations	4,677,351	5,082,995	4,878,709	204,286
Fund Balance--December 31, 2006	\$ -	\$ -	\$ 201,267	\$ 201,267

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
911 SERVICE--MAJOR SPECIAL REVENUE FUND
Year Ended December 31, 2006

EXHIBIT L

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 345,662	\$ 345,662	\$ 372,621	\$ 26,959
State Grants	89,500	89,500	109,001	19,501
Charges for Services	74,220	74,220	79,244	5,024
Interest and Rentals	495	495	5,873	5,378
Total Revenues	509,877	509,877	566,739	56,862
Expenditures				
Current				
Public Safety	434,831	451,490	440,259	11,231
Capital Outlay	108,000	108,000	121,943	(13,943)
Total Expenditures	542,831	559,490	562,202	(2,712)
Excess of Revenues Over (Under) Expenditures	(32,954)	(49,613)	4,537	54,150
Other Financing Sources (Uses)				
Operating Transfers (Out)--Primary Government	(14,815)	(14,815)	(14,811)	4
Total Other Financing Sources (Uses)	(14,815)	(14,815)	(14,811)	4
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(47,769)	(64,428)	(10,274)	54,154
Fund Balance--January 1, 2006	356,000	356,000	462,631	106,631
Fund Balance--December 31, 2006	\$ 308,231	\$ 291,572	\$ 452,357	\$ 160,785

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING RESERVE--MAJOR SPECIAL REVENUE FUND
Year Ended December 31, 2006

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 723,330	\$ 723,330	\$ 423,334	\$ (299,996)
Total Revenues	723,330	723,330	423,334	(299,996)
Expenditures				
Current				
General Government	301,893	301,893	-	301,893
Total Expenditures	301,893	301,893	-	301,893
Excess of Revenues Over (Under) Expenditures	421,437	421,437	423,334	1,897
Fund Balance--January 1, 2006	300,000	300,000	1,025,203	725,203
Fund Balance--December 31, 2006	\$ 721,437	\$ 721,437	\$ 1,448,537	\$ 727,100

**ARENAC COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006**

EXHIBIT N

	SPECIAL REVENUE FUNDS								
	Park	Ambulance	Homeland Security	Friend of Court	Circuit Court Counseling	Survey and Remon-umentation	Building Department	Residence Exemption Administration	Register of Deeds Automation
<u>ASSETS</u>									
Cash	\$ 3,605		\$ 504	\$ 8,162	\$ 28,896	\$ 771	\$ 19,347	\$ 1,099	\$ 27,852
Investments		\$ 312,905							
Receivables									
Taxes		294,187							
Accounts	46								
Loans									
Due From State of Michigan				34,315		22,013			
Total Assets	\$ 3,651	\$ 607,092	\$ 504	\$ 42,477	\$ 28,896	\$ 22,784	\$ 19,347	\$ 1,099	\$ 27,852
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable	\$ 1,114			\$ 8,111			\$ 362		
Due to Other Funds--Primary Government				8,680					
Due to State of Michigan									
Accrued Wages Payable				3,292			957		
Advances From Other Funds									
Primary Government									
Deferred Revenue--Taxes		\$ 294,187							
Deferred Revenue--Other									
Total Liabilities	1,114	294,187	\$ -	20,083	\$ -	\$ -	1,319	\$ -	\$ -
Fund Balances									
Reserved for Capital Projects									
Reserved for Special Revenue Programs	1,214	312,905	504	22,394	28,896	22,784	18,028	1,099	27,852
Designated for Capital Projects	1,323								
Total Fund Balances	2,537	312,905	504	22,394	28,896	22,784	18,028	1,099	27,852
Total Liabilities and Fund Balances	\$ 3,651	\$ 607,092	\$ 504	\$ 42,477	\$ 28,896	\$ 22,784	\$ 19,347	\$ 1,099	\$ 27,852

ARENAC COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006

EXHIBIT N
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	MCOLES Deputy Training	Correction Officer Training	Drug Law Enforcement	Road Patrol Millage	Law Library	Senior Citizen Millage	Drug and Alcohol	Sheriff Department Donations	Housing Commission
<u>ASSETS</u>									
Cash	\$ 3,067	\$ 3,807	\$ 14,040	\$ 51,934	\$ 1,202	\$ 5,731	\$ 3,567	\$ 1,755	\$ 53,479
Investments									
Receivables									
Taxes				484,889		374,742			
Accounts									
Loans									1,168,955
Due From State of Michigan									3,757
Total Assets	\$ 3,067	\$ 3,807	\$ 14,040	\$ 536,823	\$ 1,202	\$ 380,473	\$ 3,567	\$ 1,755	\$ 1,226,191
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable				\$ 2,121	\$ 40			\$ 100	\$ 18,893
Due to Other Funds--Primary Government									
Due to State of Michigan									
Accrued Wages Payable				8,622					
Advances From Other Funds									
Primary Government									
Deferred Revenue--Taxes				484,889		\$ 374,742			
Deferred Revenue--Other									1,168,955
Total Liabilities	\$ -	\$ -	\$ -	495,632	40	374,742	\$ -	100	\$ 1,187,848
Fund Balances									
Reserved for Capital Projects									
Reserved for Special Revenue Programs	3,067	3,807	14,040	41,191	1,162	5,731	3,567	1,655	38,343
Designated for Capital Projects									
Total Fund Balances	3,067	3,807	14,040	41,191	1,162	5,731	3,567	1,655	38,343
Total Liabilities and Fund Balances	\$ 3,067	\$ 3,807	\$ 14,040	\$ 536,823	\$ 1,202	\$ 380,473	\$ 3,567	\$ 1,755	\$ 1,226,191

**ARENAC COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006**

**EXHIBIT N
(CONTINUED)**

	SPECIAL REVENUE FUNDS						DEBT SERVICE FUND	CAPITAL PROJECTS FUND	
	Family Court Juvenile	Department of Human Services	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	Animal Welfare	Building Authority Debt	Building Authority Construction	Total
<u>ASSETS</u>									
Cash	\$ 1,853	\$ 3,286	\$ 46,792	\$ 6,099	\$ 283	\$ 2,935		\$ 5,145	\$ 295,211
Investments									312,905
Receivables									
Taxes									1,153,818
Accounts									46
Loans									1,168,955
Due From State of Michigan	2,977				379			27,460	90,901
Total Assets	\$ 4,830	\$ 3,286	\$ 46,792	\$ 6,099	\$ 662	\$ 2,935	\$ -	\$ 32,605	\$ 3,021,836
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable									\$ 30,741
Due to Other Funds--Primary Government									8,680
Due to State of Michigan			\$ 45,884						45,884
Accrued Wages Payable									12,871
Advances From Other Funds									
Primary Government	\$ 3,000								3,000
Deferred Revenue--Taxes									1,153,818
Deferred Revenue--Other									1,168,955
Total Liabilities	3,000	\$ -	45,884	\$ -	\$ -	\$ -	\$ -	\$ -	2,423,949
Fund Balances									
Reserved for Capital Projects								32,605	32,605
Reserved for Special Revenue Programs	1,830	3,286	908	6,099	662	2,935			563,959
Designated for Capital Projects									1,323
Total Fund Balances	1,830	3,286	908	6,099	662	2,935	-	32,605	597,887
Total Liabilities and Fund Balances	\$ 4,830	\$ 3,286	\$ 46,792	\$ 6,099	\$ 662	\$ 2,935	\$ -	\$ 32,605	\$ 3,021,836

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT O

	SPECIAL REVENUE FUNDS								
	Park	Ambulance	Homeland Security	Friend of Court	Circuit Court Counseling	Survey and Remon-umentation	Building Department	Residence Exemption Administration	Register of Deeds Automation
Revenues									
Taxes		\$277,141						\$ 178	
Licenses and Permits					\$ 1,910		\$ 107,339		
Federal Grants			\$ 20,592	\$134,328					
State Grants				1,765		\$ 22,013			
Contributions--Local Units									
Charges for Services	\$ 48,431			20,851			100		\$ 30,205
Interest and Rents									
Fines and Forfeits									
Other									
Total Revenues	48,431	277,141	20,592	156,944	1,910	22,013	107,439	178	30,205
Expenditures									
Current									
General Government				174,244	800	15,608		447	19,808
Public Safety			23,643				132,529		
Public Works									
Health and Welfare		246,000							
Community and Economic Development									
Recreation and Cultural	54,163								
Other									
Capital Outlay									
Debt Service									
Principal	2,331								
Interest	621								
Total Expenditures	57,115	246,000	23,643	174,244	800	15,608	132,529	447	19,808
Excess of Revenues Over (Under) Expenditures	(8,684)	31,141	(3,051)	(17,300)	1,110	6,405	(25,090)	(269)	10,397
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government				17,126					
Operating Transfers (Out)--Primary Government			(150,000)						
Total Other Financing Sources (Uses)	-	-	(150,000)	17,126	-	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(8,684)	31,141	(153,051)	(174)	1,110	6,405	(25,090)	(269)	10,397
Fund Balance--January 1, 2006	11,221	281,764	153,555	22,568	27,786	16,379	43,118	1,368	17,455
Fund Balance--December 31, 2006	\$ 2,537	\$312,905	\$ 504	\$ 22,394	\$ 28,896	\$ 22,784	\$ 18,028	\$ 1,099	\$ 27,852

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT O
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	MCOL Deputy Training	Correc Officer Training	Drug Law Enforcement	Road Patrol Millage	Law Library	Senior Citizen Millage	Drug and Alcohol	Sheriff Department Donations	Housing Commission
Revenues									
Taxes				\$ 462,486		\$ 357,698			
Licenses and Permits									
Federal Grants									\$ 87,409
State Grants									58,348
Contributions--Local Units									
Charges for Services		\$ 6,550							3,863
Interest and Rents								\$ 334	
Fines and Forfeits			\$ 18,393		\$ 2,500				
Other				13,580			\$ 4,067	1,528	114,122
Total Revenues	\$ -	6,550	18,393	476,066	2,500	357,698	4,067	1,862	263,742
Expenditures									
Current									
General Government					6,729				
Public Safety	4,188	9,435	8,494	385,505			500	3,923	
Public Works									
Health and Welfare						355,626			
Community and Economic Development									291,040
Recreation and Cultural									
Other									
Capital Outlay				22,840				41,183	
Debt Service									
Principal									
Interest									
Total Expenditures	4,188	9,435	8,494	408,345	6,729	355,626	500	45,106	291,040
Excess of Revenues Over (Under) Expenditures	(4,188)	(2,885)	9,899	67,721	(4,229)	2,072	3,567	(43,244)	(27,298)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government					4,000			150	
Operating Transfers (Out)--Primary Government				(26,600)					
Total Other Financing Sources (Uses)	-	-	-	(26,600)	4,000	-	-	150	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(4,188)	(2,885)	9,899	41,121	(229)	2,072	3,567	(43,094)	(27,298)
Fund Balance--January 1, 2006	7,255	6,692	4,141	70	1,391	3,659	-	44,750	65,640
Fund Balance--December 31, 2006	\$ 3,067	\$ 3,807	\$ 14,040	\$ 41,191	\$ 1,162	\$ 5,731	\$ 3,567	\$ 1,656	\$ 38,342

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT O
(CONTINUED)

	SPECIAL REVENUE FUNDS						DEBT SERVICE FUND	CAPITAL PROJECTS FUND	
	Family Court Juvenile	Department of Human Services	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	Animal Welfare	Building Authority Debt	Building Authority Construction	Total
Revenues									
Taxes									\$ 1,097,503
Licenses and Permits									109,249
Federal Grants									242,329
State Grants	\$13,371		\$ 40,146		\$ 5,537			\$ 41,450	182,630
Contributions--Local Units									-
Charges for Services									110,000
Interest and Rents									334
Fines and Forfeits									20,893
Other			20,690			\$ 1,075		2,000	157,062
Total Revenues	13,371	\$ -	60,836	\$ -	5,537	1,075	\$ -	43,450	1,920,000
Expenditures									
Current									
General Government									217,636
Public Safety						1,674			569,891
Public Works									-
Health and Welfare	13,959	5,463	380,199	3,475	4,917				1,009,639
Community and Economic Development									291,040
Recreation and Cultural								16,143	70,306
Other									-
Capital Outlay									64,023
Debt Service									
Principal							35,000		37,331
Interest							24,245		24,866
Total Expenditures	13,959	5,463	380,199	3,475	4,917	1,674	59,245	16,143	2,284,732
Excess of Revenues Over (Under) Expenditures	(588)	(5,463)	(319,363)	(3,475)	620	(599)	(59,245)	27,307	(364,732)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government		4,000	320,000	8,000			59,245		412,521
Operating Transfers (Out)--Primary Government									(176,600)
Total Other Financing Sources (Uses)	-	4,000	320,000	8,000	-	-	59,245	-	235,921
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(588)	(1,463)	637	4,525	620	(599)	-	27,307	(128,811)
Fund Balance--January 1, 2006	2,418	4,749	271	1,574	42	3,534	-	5,298	726,698
Fund Balance--December 31, 2006	\$ 1,830	\$ 3,286	\$ 908	\$ 6,099	\$ 662	\$ 2,935	\$ -	\$ 32,605	\$ 597,887

ARENAC COUNTY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
DECEMBER 31, 2006

EXHIBIT P

	BUSINESS-TYPE ACTIVITIES		
	Tax Foreclosure	Jail Commissary	Total
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 89,655	\$ 2,691	\$ 92,346
Total Assets	89,655	2,691	92,346
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	131	141	272
Total Liabilities	131	141	272
<u>NET ASSETS</u>			
Unrestricted	89,524	2,550	92,074
Total Net Assets	\$ 89,524	\$ 2,550	\$ 92,074

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT Q

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Tax Foreclosure	Jail Commissary	Total
Operating Revenues			
Charges for Services	\$ 111,412	\$ 3,380	\$114,792
Total Operating Revenues	111,412	3,380	114,792
Operating Expenses			
Title Search Fees	30,505		30,505
Supplies and Materials	1,945	4,675	6,620
Other Foreclosure Costs	7,424		7,424
Total Operating Expenses	39,874	4,675	44,549
Operating Income (Loss)	71,538	(1,295)	70,243
Change in Net Assets	71,538	(1,295)	70,243
Total Net Assets--January 1, 2006	17,986	3,845	21,831
Total Net Assets--December 31, 2006	\$ 89,524	\$ 2,550	\$ 92,074

ARENAC COUNTY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT R

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Tax Foreclosure	Jail Commissary	Total
Cash Flows From Operating Activities			
Charges for Services	\$ 111,412	\$ 3,380	\$ 114,792
Goods and Services Purchased	(39,743)	(4,535)	(44,278)
Net Cash Provided by Operating Activities	71,669	(1,155)	70,514
Net Increase (Decrease) in Cash and Cash Equivalents	71,669	(1,155)	70,514
Cash and Cash Equivalents--January 1, 2006	17,986	3,846	21,832
Cash and Cash Equivalents--December 31, 2006	<u>\$ 89,655</u>	<u>\$ 2,691</u>	<u>\$ 92,346</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 71,538	\$ (1,295)	\$ 70,243
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
Increase (Decrease) in Accounts Payable	131	140	271
Net Cash Provided by Operating Activities	<u>\$ 71,669</u>	<u>\$ (1,155)</u>	<u>\$ 70,514</u>

**ARENAC COUNTY
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
December 31, 2006**

EXHIBIT S

	Trust and Agency	District Court Trust	Library (Penal Fines)	Total
<u>ASSETS</u>				
Cash	\$ 1,057,394	\$ 19,281	\$ 67,967	\$ 1,144,642
Total Assets	\$ 1,057,394	\$ 19,281	\$ 67,967	\$ 1,144,642
<u>LIABILITIES</u>				
Due to Other Funds	\$ 748,345			\$ 748,345
Due to State of Michigan	112,065			112,065
Undistributed Tax Collections	126,331			126,331
Undistributed Penal Fines			\$ 67,967	67,967
Other Liabilities	70,653	\$ 19,281		89,934
Total Liabilities	\$ 1,057,394	\$ 19,281	\$ 67,967	\$ 1,144,642

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT T

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Current Property Taxes	\$ 2,316,000	\$ 2,324,171	\$ 2,330,543	\$ 6,372
Current Property Taxes--Revenue Sharing Reserve	301,893	301,893	300,000	(1,893)
Delinquent Real Property Tax	-	-	-	-
Delinquent Personal Property Tax	7,000	11,718	11,718	-
Trailer Taxes	1,500	2,820	2,930	110
Swamp Lands Tax	26,000	26,000	26,174	174
Total Taxes	2,652,393	2,666,602	2,671,365	4,763
Licenses and Permits				
Clerk Licenses and Permits	4,000	3,000	1,805	(1,195)
Dog Licenses	8,500	8,500	6,247	(2,253)
Sheriff Licenses and Permits	750	750	560	(190)
Total Licenses and Permits	13,250	12,250	8,612	(3,638)
Federal Grants				
FEMA	6,000	6,000	4,941	(1,059)
Prosecuting Attorney--Cooperative Reimbursement Program	-	-	49,834	49,834
Marine Safety	500	2,461	2,461	-
Total Federal Grants	6,500	8,461	57,236	48,775
State Grants				
Liquor License Fees	6,000	6,145	6,145	-
Prosecuting Attorney--Cooperative Reimbursement Program	40,700	40,700	726	(39,974)
Probate Judges' Salary	139,919	139,919	139,919	-
Family Court State Juvenile Supplement	28,000	28,000	27,317	(683)
Circuit Judges' Supplement	45,724	45,724	45,724	-
District Judges' Supplement	45,724	45,724	45,724	-
District Court Caseflow Assistance	6,000	6,000	4,227	(1,773)
Court Funding	109,812	109,812	107,334	(2,478)
Crime Victims' Assistance	24,300	24,300	21,129	(3,171)
Secondary Road Patrol Program	50,700	50,700	50,486	(214)
Driver License Restitution	500	500	-	(500)
Convention Facility Liquor Tax	64,252	67,499	67,499	-
State Cigarette Tax	10,500	10,200	10,199	(1)
Total State Grants	572,131	575,223	526,429	(48,794)
Contributions From Local Units of Government				
School Liaison Contract	23,000	20,000	16,465	(3,535)
City Road Patrol Contract	73,500	74,662	83,466	8,804
Total Contributions From Local Units of Government	96,500	94,662	99,931	5,269
Charges for Services				
Circuit Court Costs	28,000	28,000	23,602	(4,398)
District Court Costs	400,000	300,000	290,966	(9,034)
District Court Civil Fees	24,000	25,872	28,188	2,316
Probate Court Services	25,000	25,000	23,682	(1,318)
Clerk Court Fees	9,000	9,000	7,414	(1,586)
Court Ordered Prosecution Fees	10,000	10,000	9,510	(490)
Treasurer Services	4,000	4,000	2,998	(1,002)
Clerk Services	16,000	16,000	12,768	(3,232)
Register of Deeds Services	130,000	132,000	139,621	7,621

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT T
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services (Continued)				
Sheriff Services	2,000	2,209	2,367	158
Paper Service Fees	6,000	6,286	6,837	551
Fees for Sheriff Services	2,000	2,684	2,949	265
Boat Inspections Fees	2,000	3,416	3,416	-
Fingerprint Services	1,000	500	390	(110)
ACL Screening	7,000	6,000	4,630	(1,370)
CSC Fees	500	500	20	(480)
Record Copying	15,000	22,900	25,257	2,357
Out County Inmates Board	15,000	22,853	23,062	209
Inmate Housing Fees	9,000	14,000	15,548	1,548
Inmate Work Release	20,000	20,000	17,175	(2,825)
Social Security Incentive Jail	2,000	2,000	800	(1,200)
Jail Drug Test Charge	800	800	824	24
Jail Telephone Contract	-	-	-	-
Animal Control Services	25,000	30,860	31,375	515
Guardian Homemaker Services	35,000	35,000	42,925	7,925
Sale of County Properties	500	500	-	(500)
Equalization Department Services	43,000	43,000	39,341	(3,659)
Miscellaneous Services	1,000	1,000	788	(212)
Total Charges for Services	832,800	764,380	756,453	3,196
Fines and Forfeitures				
District Court Fines and Forfeitures	20,000	17,000	11,097	(5,903)
Total Fines and Forfeitures	20,000	17,000	11,097	(5,903)
Interest and Rents				
Interest Earned	35,000	30,000	50,899	20,899
Rents	5,000	5,000	5,000	-
Total Interest and Rents	40,000	35,000	55,899	20,899
Other Revenue				
Reimbursements				
Jury Compensation	2,000	2,000	4,930	2,930
Telephone	16,000	16,000	14,151	(1,849)
Circuit Court Wages and Fringe Benefits				
Alcona County	46,016	46,016	41,104	(4,912)
Iosco County	128,565	128,565	120,716	(7,849)
Oscoda County	42,949	42,949	44,371	1,422
Circuit Court Litigation--Other Counties				-
Insurance	12,000	20,363	20,363	-
Miscellaneous	3,000	6,113	5,909	(204)
Total Other Revenue	250,530	262,006	251,544	(10,462)
Total Revenues	4,484,104	4,435,584	4,438,566	2,982
Other Sources				
Operating Transfers In From (Primary Government)				
Delinquent Tax Revolving	193,247	647,411	525,140	(122,271)
Total Other Sources	193,247	647,411	525,140	(122,271)
Total Revenue and Other Sources	\$ 4,677,351	\$ 5,082,995	\$ 4,963,706	\$ (119,289)

ARENAC COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT U

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Board of Commissioners	\$ 100,650	\$ 100,800	\$ 106,026	\$ (5,226)
Circuit Court--Operating	218,239	218,989	212,942	6,047
Circuit Court--Shared 4 Way Costs	238,863	239,313	217,260	22,053
District Court	275,527	283,077	290,043	(6,966)
Friend of the Court	18,526	18,526	1,403	17,123
Public Guardian	55,950	59,331	59,938	(607)
Jury Board	4,200	3,200	3,171	29
Probate Court	175,839	176,139	176,332	(193)
Adult Probation	1,150	1,150	191	959
Elections	15,100	15,100	14,458	642
Clerk	137,502	137,952	134,472	3,480
Equalization Department	114,706	115,012	115,108	(96)
Victims Rights Advocate	20,010	20,010	18,327	1,683
Prosecuting Attorney	99,486	101,186	100,482	704
Prosecuting Attorney--Cooperative Reimbursement Program	52,650	52,650	51,033	1,617
Register of Deeds	62,563	62,863	62,413	450
Treasurer	97,290	97,590	98,613	(1,023)
Cooperative Extension Service	77,417	80,667	79,302	1,365
Building Authority	275	275	275	-
Courthouse and Grounds	86,628	177,568	165,261	12,307
Transportation	2,000	2,000	556	1,444
Drain Commissioner	44,800	44,800	41,175	3,625
Professional Services	25,000	25,000	28,045	(3,045)
Tax Allocation Board	200	200	148	52
Duplication and Postage	12,000	12,000	10,554	1,446
Telephone Lease	10,624	10,495	3,541	6,954
Computer Operations	77,000	84,000	75,210	8,790
Total General Government	2,024,195	2,139,893	2,066,279	73,614
Public Safety				
Sheriff	109,647	110,632	104,882	5,750
Secondary Road Patrol	56,883	56,938	63,696	(6,758)
City Car--Standish	55,921	55,976	55,174	802
School Liaison Officer	38,562	38,617	39,356	(739)
Emergency Management	16,325	16,990	17,046	(56)
Marine Safety Program	4,575	4,575	2,538	2,037
Jail	638,305	691,805	667,940	23,865
Animal Control	52,904	56,254	57,315	(1,061)
Total Public Safety	973,122	1,031,787	1,007,947	23,840
Public Works				
Department of Public Works	700	700	-	700
Drains-at-Large	19,310	19,310	19,310	-
Total Public Works	20,010	20,010	19,310	700

ARENAC COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT U
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare				
District Health Department	128,634	130,830	130,823	7
Contagious Disease	400	400	195	205
Substance Abuse Agency	32,126	33,750	33,750	-
Medical Examiner	32,000	44,000	49,430	(5,430)
Community Mental Health Department	104,812	104,812	104,812	-
Veterans Burials	17,000	7,100	7,100	-
Total Health and Welfare	314,972	320,892	326,110	(5,218)
Community and Economic Development				
Planning Commission	1,750	1,750	1,154	596
Housing Commission	2,100	2,100	1,190	910
Economic Development	3,400	3,400	3,400	-
Total Community and Economic Development	7,250	7,250	5,744	1,506
Recreation and Culture				
Arenac Heritage Route Authority	-	8,635	8,635	-
Other				
Indirect Cost Study	10,000	10,000	6,268	3,732
Employee Fringe Benefits--Insurance	340,000	340,000	289,410	50,590
Retirement	230,000	245,000	234,205	10,795
Social Security--County Share	145,000	145,000	140,212	4,788
Tax Appeal Adjustments	5,500	8,000	3,492	4,508
Insurance and Bonds	227,000	296,097	248,807	47,290
Sick and Vacation Payoff	20,000	30,000	25,733	4,267
Miscellaneous	500	500	314	186
Total Other	978,000	1,074,597	948,441	126,156
Capital Outlay	87,571	87,571	87,571	-
Total Capital Outlay	87,571	87,571	87,571	-
Debt Service				
Principal	53,800	53,929	53,807	122
Interest	2,431	2,431	1,739	692
Total Debt Service	56,231	56,360	55,546	814
Total Expenditures	4,461,351	4,746,995	4,525,583	221,412
Other Uses				
Operating Transfers (Out)--Primary Government				
MCOLES Training				-
Friend of the Court	-	-	17,126	(17,126)
Law Library	4,000	4,000	4,000	-
Child Care Probate	200,000	320,000	320,000	-
Social Welfare	4,000	4,000	4,000	-
Soldiers and Sailors Relief	8,000	8,000	8,000	-
Total Operating Transfers (Out)--Primary Government	216,000	336,000	353,126	-
Total Expenditures and Other Uses	\$ 4,677,351	\$ 5,082,995	\$ 4,878,709	\$ 204,286

ARENAC COUNTY
COMBINING STATEMENT OF NET ASSETS
DRAIN COMMISSION--COMPONENT UNIT
December 31, 2006

EXHIBIT V

GOVERNMENTAL ACTIVITIES				
	DEBT SERVICE	CAPITAL PROJECTS		
	Twining Village Sewer	Drain	Drain Revolving	Total
<u>ASSETS</u>				
Current Assets				
Cash	\$ 20	\$ 283,944	\$ 34,920	\$ 318,884
Total Current Assets	20	283,944	34,920	318,884
Noncurrent Assets				
Special Assessments Receivable				
Due Within One Year		141,567		141,567
Due in More Than One Year		203,327		203,327
Due From Local Units of Government				
Due Within One Year	18,000			18,000
Due in More Than One Year	302,000			302,000
Capital Assets (Net)				
Assets Being Depreciated		685,375		685,375
Total Noncurrent Assets	320,000	1,030,269	-	1,350,269
Total Assets	\$ 320,020	\$ 1,314,213	\$ 34,920	\$ 1,669,153
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable		\$ 4,900		\$ 4,900
Due to Other Funds--Primary Government		5,000		5,000
Total Current Liabilities	\$ -	9,900	\$ -	9,900
Noncurrent Liabilities				
Long-Term Advances From				
Primary Government--General Fund			47,000	\$ 47,000
Bonds Payable				
Due Within One Year	\$ 18,000			18,000
Due in More Than One Year	302,000			302,000
Notes Payable				
Due Within One Year		\$ 30,000		30,000
Due in More Than One Year		150,000		150,000
Total Noncurrent Liabilities	320,000	180,000	47,000	547,000
Total Liabilities	320,000	189,900	47,000	556,900
<u>NET ASSETS</u>				
Invested in Capital Assets--Net of				
Related Debt		505,375		505,375
Reserved for Debt Service	20			20
Restricted for Capital Projects		618,938	(12,080)	606,858
Total Net Assets	\$ 20	\$ 1,124,313	\$ (12,080)	\$ 1,112,253

ARENAC COUNTY
COMBINING BALANCE SHEET
DRAIN COMMISSION--COMPONENT UNIT
December 31, 2006

EXHIBIT W

	GOVERNMENTAL FUNDS			
	DEBT SERVICE FUND	CAPITAL PROJECT FUNDS		
	Twining Village Sewer	Drain	Drain Revolving	Total
<u>ASSETS</u>				
Cash	\$ 20	\$ 283,944	\$ 34,920	\$ 318,884
Special Assessments Receivable		344,894		344,894
Due From Village	320,000			320,000
Due From Other Funds--Component Units			12,080	12,080
Total Assets	\$ 320,020	\$ 628,838	\$ 47,000	\$ 995,858
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts Payable		\$ 4,900		\$ 4,900
Due to Other Funds--Primary Government		5,000		5,000
Due to Other Funds--Component Units		12,080		12,080
Advances From Other Funds--Primary Government			\$ 47,000	47,000
Deferred Revenue	\$ 320,000	344,894		664,894
Total Liabilities	320,000	366,874	47,000	733,874
Fund Balance				
Reserved for Debt Service	20			20
Designated for Capital Projects		261,964		261,964
Total Fund Balance	20	261,964	-	261,984
Total Liabilities and Fund Balance	\$ 320,020	\$ 628,838	\$ 47,000	\$ 995,858
Fund Balance--Total Governmental Funds				\$ 261,984
Amounts reported for governmental activities in the Statement of Net Assets are different because				
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.				685,375
The long-term special assessments are not considered "available" in governmental funds, but are considered earned and are recognized as revenue in the Statement of Activities				344,894
Certain receivables, such as due from local units of government, are not due in the current period and, therefore, are not reported in the funds				320,000
Certain liabilities, such as bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds				(500,000)
Total Net Assets				\$ 1,112,253

ARENAC COUNTY
COMBINING STATEMENT OF ACTIVITIES
DRAIN COMMISSION--COMPONENT UNIT
For the Year Ended December 31, 2006

EXHIBIT X

	PROGRAM REVENUES				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
<u>Governmental Activities</u>					
Twining Village Sewer					
Interest on Related Debt	\$ 19,710		\$ 19,730		\$ 20
Total Twining Village Sewer	19,710	\$ -	19,730	\$ -	20
Drain					
Public Works	87,224	114,115			26,891
Interest on Related Debt	7,749				(7,749)
Total Drain	94,973	114,115	-	-	19,142
Drain Revolving					
Public Works					
Total Drain Revolving	\$ -	\$ -	\$ -	\$ -	-
Change in Net Assets					19,162
Net Assets--Beginning of Year					1,093,091
Net Assets--End of Year					\$ 1,112,253

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
DRAIN COMMISSION--COMPONENT UNIT
For the Year Ended December 31, 2006

EXHIBIT Y

	GOVERNMENTAL FUNDS			
	DEBT SERVICE	CAPITAL PROJECTS		
	Twining Village Sewer	Drain	Drain Revolving	Total
Revenues				
Contributions From Local Units	\$ 36,730			\$ 36,730
Interest and Rentals				-
Special Assessments		\$ 114,115		114,115
Total Revenues	36,730	114,115	\$ -	150,845
Expenditures				
Public Works		37,705		37,705
Debt Service				
Principal	17,000	30,000		47,000
Interest and Fiscal Fees	19,710	7,749		27,459
Total Expenditures	36,710	75,454	-	112,164
Excess of Revenues Over (Under)				
Expenditures	20	38,661	-	38,681
Fund Balance--January 1, 2006	-	223,303	-	223,303
Fund Balance--December 31, 2006	\$ 20	\$ 261,964	\$ -	\$ 261,984

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances--Total Governmental Funds	\$ 38,681
Village contributions related to principal payments are recorded as revenues in governmental funds, but have already been recorded as revenue in the year the debt was incurred.	(17,000)
Special Assessment Receivables are not recorded as revenue in governmental funds, but are recorded as revenue in the Statement of Activities.	114,115
Special Assessment revenue recorded in governmental funds for prior years are not recognized as revenue in the Statement of Activities.	(114,115)
Principal payments are recorded as expenditures in governmental funds, but principal payments reduce long-term liabilities in the Statement of Net Assets.	47,000
Depreciation is not recorded as an expense in governmental funds, but is recorded as an expense in the Statement of Activities.	(49,519)
Change in Net Assets of Governmental Activities	\$ 19,162



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 24, 2007

Arenac County Board of Commissioners
County of Arenac
120 North Grove Street
Standish, Michigan 48658

RE: Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arenac County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise Arenac County's basic financial statements and have issued our report thereon dated May 24, 2007. We did not audit the financial statements of the Arenac County Road Commission (discrete component unit--governmental fund) which statements reflect total assets and revenues of \$6,596,743 and \$3,842,696, respectively, as of December 31, 2006. These financial statements were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arenac County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arenac County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Arenac County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2005-01 through 2005-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arenac County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings as item 2006-01.

This report is intended solely for the information of the Arenac County Board of Commissioners, the County's management, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ARENAC COUNTY
SCHEDULE OF FINDINGS

CONTROL DEFICIENCIES

Board of Commissioners--Capital Assets

Finding 2005-01

Condition: The county does not maintain adequate internal controls for capital assets. A capital asset subsidiary record is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the county to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year are recorded as capital outlay and should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Disposals should equal the reductions to the capital asset records in both governmental and business type funds.

Recommendation: We recommend that the county develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the county should be taken and included in the permanent records of the county and updated annually.
- 2) All assets owned by the county should be permanently labeled in some manner such as permanent individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the county to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the county should keep records on all assets owned by the county which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset (including department)	-Accumulated Depreciation of the Asset
	-Net Book Value of the Asset
- 4) Capital assets that meet the county's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

ARENAC COUNTY

SCHEDULE OF FINDINGS

CONTROL DEFICIENCIES (Continued)

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets, it will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires capital assets to be included in the financial statements of the county.

STATUTORY NONCOMPLIANCE

Expenditures in Excess of Appropriations

Finding 2006-01

Condition: Our examination of procedures used by the county to adopt and maintain operating budgets for the county's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 621 of 1978, as amended, the Uniform Budgeting and Accounting Act.

The county's 2006 General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled to the activity level by the county. As detailed below, actual 2006 expenditures exceeded the board's approved budget allocations for several general fund and special revenue fund activities.

ARENAC COUNTY

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE (Continued)

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund and special revenue funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Board of Commissioners	\$ 100,800	\$ 106,026	\$ (5,226)
District Court	283,077	290,043	(6,966)
Public Guardian	59,331	59,938	(607)
Probate Court	176,139	176,332	(193)
Equalization	115,012	115,108	(96)
Treasurer	97,590	98,613	(1,023)
Professional Services	25,000	28,045	(3,045)
Public Safety			
Secondary Road Patrol	56,938	63,696	(6,758)
School Liaison Officer	38,617	39,356	(739)
Emergency Management	16,990	17,046	(56)
Animal Control	56,254	57,315	(1,061)
Health and Welfare			
Medical Examiner	44,000	49,430	(5,430)
Transfers (Out)--Friend of Court		17,126	(17,126)
Park Fund			
Recreational and Cultural	53,691	54,163	(472)
911 Service			
Capital Outlay	108,000	121,943	(13,943)
Law Library			
General Government	6,500	6,729	(229)
Senior Citizen Millage			
Health and Welfare	348,500	355,626	(7,126)
Drug and Alcohol			
Public Safety		500	(500)
Housing			
Community and Economic Development	195,800	291,040	(95,240)
Family Court Juvenile			
Health and Welfare	13,000	13,959	(959)
Department of Human Services			
Health and Welfare	5,000	5,463	(463)
Child Care Probate			
Health and Welfare	212,000	380,199	(168,199)
Veterans Trust			
Health and Welfare	1,800	4,917	(3,117)

ARENAC COUNTY

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE (Continued)

Criteria: The expenditure of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Recommendation: We recommend that the county's chief administrative officer (administrator) and those boards and commissions and administrative personnel responsible for administering the activities of the various funds of the county, develop budgetary control procedures for the general fund and special revenue funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof. These procedures should include a requirement that each county department head be responsible for monitoring the budgetary status of his or her activity(ies) monthly. Department heads must also be required to make formal requests to the county treasurer for budget amendments prior to incurring expenditures in excess of board authorized amounts.